COMPANY ACCOUNTS

A. COLES, F.C.I.S.

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A COMPLETE PRACTICAL MANUAL FOR THE USE OF OFFICIALS IN LIMITED COMPANIES AND ADVANCED STUDENTS

BY

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PREFACE

BY

CHARLES COMINS, F.C.A.

THE application of the principle of limited liability to business affairs has brought considerable advantages, and as it has been taken up and extended, Acts of Parliament have been passed from time to time to meet the altered circumstances. The growth of companies has been most rapid during the past fifty years.

Before 1862, when the first Companies Act was passed, a Joint Stock Company could only be established either by grant of a Royal Charter or by the enactment of a special Act of Parliament. It was under such auspices that several of the great and historic institutions, such as the East India, the New River, and the Hudson Bay Companies, were formed. All of the great railway companies were incorporated under special Act of Parliament, and in like manner the foundations of many of the insurance and banking institutions were laid. The formation of a Joint Stock Company in this way meant the expenditure of a large sum of money, besides being a very tedious and protracted process. The adventurers of to-day who desire to exploit and develop some unknown territory do not now require to apply for a Royal Charter, although in such undertakings as railways, gas and water works, or any similar kind of undertaking which may be described, as they are known in America, as "public utility companies," it is still considered more advisable to obtain incorporation by special Act of Parliament, because they seek not only to obtain authority for the raising of capital, but special privileges which affect the public authorities in the district in which they operate. The accounts of these companies are kept on what is known as the "Double Account System," by which the receipts

and payments on Capital Account are kept quite distinct from the transactions which affect the Revenue Account. The various rules, regulations and forms are laid down in the Companies Clauses Act of 1845.

Those trading concerns of to-day which are registered as limited companies, are incorporated for the most part under the Companies Acts, those at present in force being—

(1) The Companies (Consolidation) Act, 1908, which consolidated and codified the Law contained in some earlier statutes;

(2) The Companies Act, 1913;

(3) The Companies (Particulars as to Directors) Act, 1917; and

(4) The Companies (Foreign Interests) Act, 1917.

The principal Act is the Consolidation Act and every student who wishes to understand anything about companies, even in broad outline, must read this wonderful Act of Parliament, and every official who has anything to do with the regulation of the affairs of a company and the keeping of accounts must always keep it by him for ready reference.

Proprietorship by limited company is very popular now, although it is not so very long ago since trading by means of a limited company was looked upon with some disfavour, at any rate in the smaller concerns. In the wholesale trades there are to-day probably far more businesses being conducted under this plan than either by private individuals or by persons trading together in partnership. On the 31st December, 1923, there were registered in the United Kingdom no less than 87,930 companies with paid-up capital to the extent of £4,265,361,467, whilst for the year ending 31st December, 1923, there were 8,466 new companies formed with a capital of £113,944,466. In the "boom" year of 1920, however, the registrations totalled over 11,000, representing a total capital of £593,189,032. These figures give some idea of the vast extent to which the trade of the country is carried on by means of limited companies, and as time goes on there

is no doubt it will continue to increase until the greater portion of business will be conducted by this means. The change from private ownership to that of a limited company has brought about many alterations in business life, amongst which three things stand out very clearly : firstly, the removal of the personal element ; secondly, the wider distribution of capital ; and, thirdly, the improvement in the keeping of accounts.

In regard to the removal of the personal element, it may be stated that a company, when once it is established, may go on for ever and never die. A great number of companies each year are struck off the list for the reason that they have failed to make proper returns, and of course a number of companies are wound up for various causes. The Share Capital of a company need never be paid back ; once invested in the business it remains there, and should always be protected and preserved intact by the successive Boards of Directors who manage its affairs. The Capital of a firm, however, is contributed by the partners during the term of the partnership, and, in the event of the death of a partner, his share may have to be paid out, and this may be a serious handicap for the private firm as compared with a business with a sufficient and ample capital subscribed and paid up in the terms of the Memorandum of Association of a limited company. Then, again, the management and policy of the business is directed by the Board of Directors who control the affairs of the Company. In the case of dispute the shareholders are the final arbiters. Should partners disagree they must have recourse to arbitration or to the Court of Chancery, and if dissolution follows, the organisation, connection and goodwill of the business may be split up into fragments. On the other hand, Directors may come and Directors may go, but the company continues its career from one generation to another ; that is, of course, so long as it is prosperous, holds its annual meetings every year, and makes its Annual Returns as required by law.

As to the wider distribution of capital, it is certain that

when the history of the enormous expansion of commerce and the great progress of industry during the past decade is written, it will be seen how much limited companies have contributed towards this result. The accumulated wealth of the rich, as well as the savings of the middle classes and of the poor, have been invested in companies and by this means it has been possible to establish new industries. Capital which otherwise would have been lying idle or remained on deposit at the Bank has thus been brought into use. The opportunity of attracting capital from the people of these Islands has been well made use of for the purpose of furthering schemes of all kinds, not only in this country but in all parts of the world. Capital has been found for such speculative enterprises as those for the production of gold, rubber and oil, which could never have been obtained to such an extent without the aid of the limited liability companies; and the successful exploitation in these fields of industry has retained a large share of the trade for England. Thus capital has been brought to industry, whilst at the same time the limit of risk has been afforded to the investors. The man of small means who invests, say, £100 in a company, knows that when he has paid up the full amount for which he is liable on his shares, that is the extent of his risk. Before the advent of the limited company the individuals who subscribed the initial capital for a new enterprise were liable to lose not only the sum first contributed as capital, but they had an unlimited and an unknown liability for all the debts and liabilities of the concern in which they were jointly interested. In the event of disaster it might mean not only the loss of their investments but also of their homes and private property. At the present time no prudent man would think of investing his money in a business as a sleeping partner with unlimited liability.

Capital is the life blood of a business and without it no business concern can be established, and the principle of limited liability has stimulated and kept up a steady flow of money from the pockets of the well-to-do into the channels

of all kinds of commerce, and spread the accumulations of the wealthy over the whole field of trade and industry.

The improvement in the keeping of accounts since the advent of the limited company is a direct consequence of turning of businesses into limited companies. When a business is run by a single proprietor he is sometimes inclined to say, and he may be entitled to say, that he is satisfied with a certain way of keeping his books, and as he is not answerable to anyone but himself he can keep his books in whatever way he thinks best without regard to the rules of accounting, but the limited company has its Auditor, who is an expert in accounts, and who once a year at least inspects the books and certifies the accounts.

Every company must keep a Minute Book in which to record the proceedings of General Meetings and Minutes of its Directors' Meetings; and the Register of Members and Annual Summary, which must always be available for inspection by any member of the company gratis, and any other person on payment of one shilling. These, together with the Register of Mortgages and Charges and the Register of Directors or Managers, constitute the statutory books. In small companies the book used for the Register of Members will also contain the registers of directors and of debentures and mortgages. The ordinary books of account to be kept by a company depend entirely upon the transactions to be recorded and the character and size of the business carried on. The Act of Parliament does not prescribe that any books of account, other than the Statutory Books, shall be kept, except that in the model set of articles, Table A, the Directors are required to cause true accounts to be kept of moneys received and expended and of the assets and liabilities of the company.

The aim of good book-keeping is to record every transaction easily and promptly as it takes place, in such a way that an accurate statement of profit and loss, giving the result of the trading for any given period, may be arrived at, together with the Balance Sheet showing the financial position of the company at any given date. A book written on " Company

Accounts" should meet the requirements of secretaries and other company officials who need to have for ready reference a work dealing with the problems and questions which occur from day to day. The books of account for a company must be designed and regulated to meet the exigencies of the moment, and to comprise all the ramifications of the business, so that, as the business of the company continues to expand and grow, the books of account are easily modified to suit the changing circumstances. For instance, in some concerns it may be possible for one book-keeper to keep the whole set of books, but in others the work has to be split up into sections and departments. In the latter, however far-reaching the business may be, all the units of book-keeping in the various branches or departments should be brought into the Counting House and tabulated in totals each day, so that at the centre there is available the material for arriving at a complete statement of the result of the transactions of the whole undertaking at any given moment. There is no necessity to urge here the importance to any business of keeping its accounts in the very best way, because nowadays this is accepted by all successful men of affairs, and in the pages which follow the author has attempted to set out the most modern system of accounting brought close up to date.

INTRODUCTORY NOTE

THE author has compiled this work in the belief that a book on the subject of Company Accounts, dealing with the matter in a more advanced manner than has yet been attempted, would meet a marked demand among those company officials who desire to have at hand, within the space of one volume, the necessary information as to systematic and precise accounts, for practical application, to the many problems which present themselves in the formation or administration of the modern business conducted upon limited liability principles. There is no scarcity of books purporting to deal with the subject on a more or less limited basis ; but so far as is known no adequate attempt has hitherto been made to cope with the requirements of those companies of a larger description where a great amount of ingenuity needs to be displayed in arranging for exhaustive, yet precise and efficient methods, capable of being applied to the varied and numerous operations of the recording departments in extensive business establishments or factories. Where this has been attempted in a minor degree, it has usually been done in such a way as to render the principles enunciated more or less hopelessly inseparable from the rigid and undeviating requirements of a particular branch of manufacture or class of trade, so that the system described may suit one particular calling, but is wholly unsuitable for others.

The contents of the following pages have been drawn up in the hope that the busy practitioner may find useful guidance in framing his accounting machinery, not only for the smaller concerns, multitudes of which exist, but also for the large establishments where the satisfactory marshalling of the thousand and one details of everyday transactions is a matter of the greatest moment. So far as it has been possible to avoid it, no indication of any particular industry has been given in any of the different systems dealt with, and it is

confidently believed that the methods advocated can be applied, with suitable modifications, to almost any trade or industry. Fortunately, with regard to the statutory books, the broad principles are common to all companies. Those instances which are cited are the outcome of many years of official practice in some of the larger prosperous and well-known London companies, in the flotation and maintenance of which the author has played a prominent part, or they are the result of experience of minor concerns which have been either amalgamated or absorbed and have come under his treatment for liquidation. In all cases the methods explained are the result of application in practice and of personal experience.

The author desires gratefully to acknowledge the great help and advice received from his friends in the compilation of the work, more particularly from Mr. Alfred G. Pearson, A.C.A., who gave him many valuable suggestions and most kind assistance in the correction of proofs ; also from Mr. W. E. Wallace, Member of Council of the Chartered Institute of Secretaries, and Mr. A. E. Pain, F.C.I.S.

Acknowledgment must also be made of the valuable assistance rendered by Mr. E. J. Hammond, A.C.I.S., in the preparation of the third edition.

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COMPANY ACCOUNTS

CHAPTER I

STATUTORY REQUIREMENTS REGULATING COMPANIES' ACCOUNTS

DESPITE the somewhat lengthy statute known as the Companies (Consolidation) Act of 1908, containing some 296 sections, it is surprising what a comparatively small amount of it deals directly with the subject of accounts and (what it is the purpose of this work to include) the whole of the recording system proper, such as would be absolutely essential to the successful working of any going concern registered under that enactment. It is true that in recent times, since 1900, very great improvements have been effected with a view to safeguarding the interests of the investing public. Even now, the clauses of the great consolidating Act embracing provisions solely for the purpose of defining any prescribed form of recording the hundred and one details of the affairs of a modern industrial or commercial limited liability concern, are exceedingly sparse. Indeed, they fall very far short of enforcing many points on subjects which are absolutely vital to a company's welfare. To many who take up the study of company law for the first time, this paucity of definite statutory clauses to regulate the accounts is a matter of some wonder. They imagine that the requisite recording systems are common to all registered companies. To some extent, as regards the share capital, this is no doubt true, but for the legislature to prescribe forms and rules of accounts for the multitudes of companies now in existence would be indeed a matter of impossibility. Yet even in broad aspects some subjects are ignored.

Were we, in preparing this work, solely concerned with the requirements for carrying out the provisions of the legislature, our task could be encompassed within the space of

half a dozen chapters. The main subjects coming under our review are, however, practically the outcome of established customs running more or less in generally accepted modes throughout the commercial community of this country. In a work of this description it would be obviously impossible to ignore certain clauses in the Consolidation Act, and in Table " A " given in the first schedule of that statute, the provisions found in the latter being such as would in all probability be found in the Articles of Association of most companies registered with their own regulations and incorporated under the parent Act. Where a company is registered without Articles of Association, it must adopt the clauses of Table " A " as its code of regulations. Our readers will gather from these preliminary remarks that the scheme of general accounts, whether of a financial character or those to record the matters dealing with shares, are to a large extent entirely a matter of discretion on the part of a company's executive. Where the statute speaks, it is seldom found that a prescribed form is required to be followed. The executive, or the board of directors, are expected to give certain defined information, but the procedure leading up to that information, or the manner of giving it, is not always stated. The company's officials have to adopt the most efficient means to attain this end.

The first section of the Consolidation Act setting out a provision for establishing a systematic record, is section 25, which requires every company to keep in " one or more books," a register of its members, which is to contain the names, addresses, and the occupations, if any, of all persons who have subscribed for shares in the company, stating also the shares of each class held by each member, with the distinctive numbers of these shares, and the amounts paid or agreed to be considered as paid thereon ; the date when each name is entered upon the register, and also the date when a person ceases to be a member. The question as to dates must be very strictly observed, for the reason that a member may be held liable for any unpaid call upon his shares up to the

date of one year after his membership ceases, e.g., as a contributory in winding up. Should the existing members be unable to satisfy their liabilities as to unpaid calls due, past members may, within the time above mentioned, be compelled to pay those liabilities (*see* section 129 (1) i and iii). If a company fails to keep these records it becomes liable to the penalty of five pounds per diem while the default continues, and every director and manager who knowingly and wilfully authorises or permits the default incurs a like penalty personally.

The next section, 26, no less important, but regarded by most officials in the company world as much more onerous and highly exacting, deals with the well-known annual return required to be made in each year, and a copy lodged with the Registrar of Joint Stock Companies at Somerset House. This very exhaustive provision will be best set out in summary form. The return must show—

(i) The list of all persons appearing on the Register of Members on the fourteenth day succeeding the first ordinary general meeting of shareholders in each year, and of all persons who have ceased to be members since the date of the previous return or (in the case of a first return) the date of the incorporation of the Company.

(ii) The list is to give the name, address, and occupation of each person appearing therein; the number of shares held by each; the number of shares with the dates of transfer of (*a*) those who still hold shares in the company, and (*b*) those who have ceased to be members.

The summary, on the face of the return, is to show the number and amount of shares issued for cash and those issued as fully paid, or partly paid up, otherwise than in cash, and

(*a*) The share capital of the company with the number and different classes of shares into which it is divided (the section does not specify the requirement as to the classes of shares, but the adopted Form E of the Board of Trade does demand this information).

(*b*) The number of shares of each class issued since the incorporation of the company.

(*c*) The amount of calls made on each class of share.

(*d*) The total amount of calls received.

(*e*) The total amount of calls unpaid.

(*f*) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures or allowed by way of discount in respect of any debentures.

(*g*) The total number of shares forfeited.

(*h*) The total amount of shares or stock for which share warrants have been issued and are outstanding at the date of the return.

(*i*) The total amount of share warrants issued and surrendered since the date of the last return.

(*k*) The number of shares or amount of stock represented by each share warrant.

(*l*) The names and addresses of the directors at the date of the return ; also such particulars as may be required by the Companies (Particulars as to Directors) Act, 1917, regarding nationality, former christian or surnames, and occupation ; and

(*m*) The total amount due by the company on debentures, mortgages, and similar charges requiring to be registered under the Act.

On the second page of the return, all companies not being "Private Companies," have to give a statement of their assets and liabilities in balance sheet form, made up to the date specified in the statement or balance sheet. The statement is to contain a summary of the company's assets and liabilities specifying how the value of any fixed assets has been arrived at, but a statement of profit and loss is not required, though any balance of profit and loss account must necessarily be shown. The statute is in this respect somewhat misleading, for it is obvious the statement could not appear in balance sheet form unless the totals of both sides agree. In this connection it will be fitting to mention the interesting case which came before a Divisional Court early in 1912 over

ANNUAL SUMMARY

No. of Certificate

[Form No. 6a. *Public Companies.*]

"THE COMPANIES ACTS, 1908 to 1917"

A 5/- Companies' Registration Fee Stamp must be *impressed* here.

FORM E

(FOR USE OF PUBLIC COMPANIES)

Summary of Share Capital and Shares of..

....

....Limited,

made up to the..............day of...19. . (being the fourteenth day after the date of the First Ordinary General Meeting in 19. .).

Nominal Share Capital, £_____Divided into* ---------- Shares of £* ---------- each

Total Number of Shares taken up* to the____day of________19__(which number must agree with the total shown in the list as held by existing members)	------------
Number of Shares issued subject to payment wholly in cash	------------
Number of Shares issued as fully paid up otherwise than in cash	------------
Number of Shares issued as partly paid up to the extent of______per Share otherwise than in cash	------------
‡There has been called up on each of__________Shares	£ ------------
" " " __________ "	£ ------------
" " " __________ "	£ ------------
Total amount of Calls received, including payments on application and allotment	£ ------------
Total amount (if any) agreed to be considered as paid on______Shares which have been issued as fully paid up otherwise than in cash	£ ------------
Total amount (if any) agreed to be considered as paid on______Shares which have been issued as partly paid up to the extent of___per Share	£ ------------
Total amount of Calls unpaid	£ ------------
Total amount (if any) of sums paid by way of Commission in respect of shares or debentures or allowed by way of Discount since the date of last Summary	£ ------------
Total amount (if any) paid on‖__________Shares forfeited	£ ------------
Total amount of Shares and Stock for which Share Warrants are outstanding — Shares	£ ------------
— Stock	£ ------------
Total amount of Share Warrants issued and surrendered respectively since date of last Summary — Issued	£ ------------
— Surrendered	£ ------------
Number of Shares or amount of Stock comprised in each Share Warrant — Number of Shares	------------
— Amount of Stock	£ ------------
Total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created on and after the 1st day of July, 1908	£ ------------

NOTE.—Banking Companies must add a list of all their places of business.

* *Where there are Shares of different kinds or amounts* (e.g. *Preference and Ordinary, or* £10 *and* £5), *state the numbers and nominal values separately.*

‡ *Where various amounts have been called, or there are Shares of different kinds, state them separately.*

‖ *Include what has been received on forfeited, as well as on existing Shares.*

§ *State the Aggregate number of Shares forfeited* (*if any*).

☞ **The Return must be signed, at the End, by the Manager or Secretary of the Company.**

Presented for filing by________________________________

____

List of Persons holding Shares in..............................

Limited, on the................day of..............................

the date of the last Return, showing their Names and Addresses, and

Folio in Register Ledger, containing Particulars.	NAMES, ADDRESSES, AND OCCUPATIONS.			
	Surname.	Christian Name.	Address.	Occupation.

NOTE.—This margin is reserved for binding, and must not be written across.

19. . . ., and of Persons who have held Shares therein at any time since

an Account of the Shares so held.

ACCOUNT OF SHARES.					REMARKS.
* Number of Shares held by existing Members at date of Return.†	‡ Particulars of Shares Transferred since the date of the last Return by persons who are still Members.		‡ Particulars of Shares Transferred since the date of the last Return by persons who have ceased to be Members.		
	Number.†	Date of Registration of Transfer.	Number.†	Date of Registration of Transfer.	

(*Signature*) ---------------------------

(*Description*) ---------------------------
(i.e. Manager or Secretary.)

* The aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the
olumn must be added up throughout, so as to make one total to agree with that stated in the Summary
have been taken up.

† When the Shares are of different classes these columns may be subdivided so that the number of each
ass held, or transferred, may be shown separately.

‡ The date of Registration of each Transfer should be given, as well as the Number of Shares transferred
n each date. The Particulars should be placed opposite the name of the Transferor, and not opposite that
the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately
pposite the particulars of each Transfer.

*STATEMENT in the form of a Balance Sheet made up to the................day of.........................19.., containing the particulars of the Capital, Liabilities, and Assets of the Company

* This Statement is not required from a Private Company within the meaning of Section 121 (i) of the Companies (Consolidation) Act, 1908, as amended by the Companies Act, 1913.

Names, etc., of the * Directors of..Limited,
on the...............day of..., 19. . .

† The present Christian Name or Names and Surname.	‡ Any former Christian Name or Names or Surname.	Nationality.	Nationality of Origin (if other than present Nationality).	Usual Residence.	Occupations.
				(Note.—Reference should first be made to the Register of Directors or Managers)	

* " Director " includes any person who occupies the position of a Director and any person in accordance with whose directions or instructions the Directors of a Company are accustomed to act.

† Christian name includes any forename. In the case of a Peer or a person usually known by a British title different from his surname, the title by which he is known must be substituted for his surname.

‡ In the case of natural-born British subjects, a former Christian name or surname should not be shown where that name or surname has been changed or disused before the person bearing the name had attained the age of eighteen years ; and in the case of a married woman the name or surname by which she was known previous to the marriage should not be given.

which Lord Alverstone, C.J., presided, *In re Galloway* v. *Schill Seebohm & Co., Ltd.* The defendants, who had attempted to file their return with the balance sheet portion giving merely all their fixed assets in one line and represented by one amount, were ordered to make the return in such a manner as would represent the values of their " fixed assets " under three separate heads, (*a*) Buildings, (*b*) Goodwill and Trade Marks, (*c*) Machinery, Fixtures and Furniture.

The section concludes with the provision that the list and summary, as detailed above, is to form a separate part of the register of members, and a copy of the list and summary is to be completed within seven days from the fourteenth day after the first ordinary general meeting of shareholders, and filed with the registrar of joint stock companies within that time, after being signed by the secretary or manager of the company. The *original* list and summary is kept at the registered office of the company, and a *copy* filed with the Registrar of Companies at Somerset House. Two lists *must* be prepared.

Default in complying with the provisions of this section imposes the penalty of five pounds per diem on the company *and* every director or manager who knowingly and wilfully permits such default. Many exacting convictions have occurred arising out of the imposition of this penalty, not only for neglect in preparing the return but also for giving false or incomplete information. The return is to be completed and filed once at least in every year. A year means a calendar year, or, 1st January to 31st December.

The statutory provision next in importance is that which deals with the registration of mortgages and charges on any property of the company. Before the date of consolidation, these requirements were scattered throughout a number of different statutes now repealed by the Consolidation Act, sections 93, 100, and 101 of which embrace these requirements. The first deals with the registration of mortgages and charges with the Registrar of Companies at Somerset House; the two latter sections more especially demand our

attention at this juncture. Section 100 provides for the keeping of a register by the company, wherein must be shown all mortgages and charges specifically affecting any property of the company. A short description of such property must be given, with the amount of the mortgage or charge against that property, and the names of the mortgagees. Every officer of the company omitting to carry out this requirement is liable to a penalty of fifty pounds. In cases where an issue of debentures obtains, the names of some person or persons appointed as trustees (if any) for debenture holders would be named in the register as the mortgagees, or, in other words, they would stand as representatives of the general body of debenture holders. The next section, 101, requires all instruments such as a debenture bond giving effect to any mortgage or charge, and the register of mortgages, to be open to the inspection of any creditor or member of the company at all reasonable times, that is, during the ordinary business hours of the company. Such inspection must be gratis, but other persons may exercise the same right upon payment of a fee not exceeding one shilling. For refusing this privilege every officer of a company incurs the liability to a penalty of five pounds and a further penalty of two pounds per diem whilst the privilege is withheld. In addition to the imposition of these penalties, any judge of the High Court may, by order, compel an immediate inspection of the register and the copies of the instruments creating the charge or charges. The other principal section under this head (93) usefully defines the nature of the charges upon a company's assets, which require to be registered; such as a mortgage or charge created for the purpose of raising and securing any issue of debentures; a charge on the uncalled share capital of the company created or evidenced by an instrument which, when given by an individual, would require registration as a bill of sale; a charge created upon land, or upon land in which the company may have any joint or divided interest, wherever situated; a charge against book debts, or a general floating charge against the general

undertaking and property of the company. It is declared that if any such charge be not registered within twenty-one days of the date of creation, the instrument is rendered void against the liquidator and any creditor of the company, and if so becoming void, the moneys purporting to be secured under the instrument become immediately payable. The penalty for omitting to file these particulars with the registrar is, by section 99, stated to be fifty pounds for every day during which the default continues.

As regards the registrations of transfers or applications for shares, section 27 imposes the condition that no notice of any trust either "implied, expressed, or constructive" shall be entered upon the register, or be receivable by the registrar. This applies only to England and Ireland. In Scotland trusts are entered upon the register, but trustees there are themselves liable for the shares they hold.

The register of members required by section 25 is further mentioned in section 30, where an important provision is found to the effect that this book is required to be kept at the registered office of the company, and that for not less than two hours each day it is to be open to the inspection of members gratis, and to any other person on the payment of one shilling. It sets out, further, the right of anyone to demand a copy of this register, or any part thereof, or of the annual list and summary or any part thereof, upon payment of sixpence for every hundred words or part of a hundred words. For refusal to grant such inspection or to provide the above-mentioned copies, the company and every director and manager incur a penalty of two pounds, and two pounds per diem.

By section 31, companies are permitted, by so announcing their intention by means of advertisement in a newspaper circulating in the neighbourhood of the registered office, to close the register for a period of not exceeding thirty days. This provision is granted for the purpose of allowing the officials a convenient respite from the registration of transfers in order to enable them to balance up the share accounts at

certain periods of the year, as will be shown in another chapter.

Sections 34, 35, and 36 apply to those companies having large connections with the colonies, and grant provisions for the keeping and maintenance, under certain prescribed conditions, of registers within such dominions of the Crown if they so desire.

Share warrants to bearer are not so largely resorted to in England as upon the Continent. The practice is, however, to some extent followed in this country. Where this obtains the reader is directed to the provisions of sections 37 and 38. The first allows a company itself, where the issue of share warrants to bearer also forms a part of the regulations of the company, to issue such warrants to bearer for its fully paid up shares, or for stock. The warrants must be under the common seal of the company and contain a statement to the effect that the bearer is entitled to the shares, the distinctive numbers of which must be given on the warrant. A specimen share warrant is given on page 14, and where the warrants are issued in different denominations, they are distinguished by being printed in distinct colours. In the case of stock, the amount of stock to which the bearer is entitled must be specified. A bearer of a share warrant may, upon surrendering it to the company, elect to have the warrant cancelled, when, if his title to the shares is not disputed, he will be entered upon the register of members in respect of the shares covered by the warrant. Particulars of the issue of warrants are to be entered in the accounts of those members whose shares are to be represented, the share certificates being, of course, surrendered and cancelled. Section 38 deals with fraud in regard to warrants, which we need not discuss here. The issue of warrants to bearer for stock is very rarely found. The Stock Exchange committee will not countenance such securities.

Under section 43, companies limited by shares are permitted to convert fully paid up shares into stock. Notice of such conversion must be sent to the registrar of companies.

No. (B) 1 up

Numero (B) 1 up

SHARE WARRANT TO BEARER

NAME OF COMPANY ....

CAPITAL £ ....

Divided into..................Shares of..................NOD..............to..............

DISTINCTIVE NUMBERS: From	To
....	....
....	....
....	....
....	....
....	....
....	....

(This side to be given in French)

Actions ....

No. of Shares. ......(5)......

Share Warrant to Bearer—

This is to certify that the Bearer of this Warrant is the proprietor of........ shares of..............NOD as on face hereof in....................subject to the regulations contained in the Articles of Association of the Company.

Given under the Common Seal, etc.

..................................*Director.*

..................................*Secretary.*

NAME OF COMPANY..................................

Talon for fresh supply of coupons for Share Warrants No............ to Bearer representing....................Shares.

The Bearer of the above Warrant will receive in exchange for this talon a fresh supply of coupons when those below have all fallen due.

NAME OF COMPANY..................................

(This side to be given in French)

Endorsement on back will give the Regulations in English and French.

Similarly a company may reconvert its stock into shares, when notice must also be given to the registrar.

We have thus far dealt in the main with the principal items in the statute dealing with the accounts, covering the subjects of shares, debentures, and returns. We now pass on to two very important sections, 112 and 113, wherein we shall find the principal requirements of the statutes covering the financial accounts and audit, more especially with regard to the rights and duties of the auditors. It behoves all who are responsible for the accounts of a company to assimilate thoroughly the provisions of the law in this direction.

Section 112 states that at each annual general meeting every company shall appoint an auditor or auditors, and that, when appointed, they shall hold office until the next annual general meeting. If such appointment be not made in the manner provided, the Board of Trade may, at the instance of any member of the company, make an appointment for the current year and fix the remuneration. No officer of the company is allowed to act in the capacity of auditor. Except a retiring auditor, no person shall be capable of being appointed unless fourteen days' notice to the company is given by any shareholder of his intention to nominate any other person. The company is, in its turn, to give notice of such nomination to the retiring auditor and to the shareholders, not less than seven days before the annual general meeting. The notice to the shareholders may be given by advertisement or in any other way allowed by the articles. The directors of the company may appoint the first auditors, who will hold office until the first annual general meeting of shareholders. It is also within the powers of the board to fill any casual vacancy which may occur in the office of auditor to the company, and during any such vacancy, if there are any surviving auditors they may act until such appointment is made. The company in general meeting is to fix the remuneration of the auditors; but in the case of first auditors, or when elected to fill a casual

vacancy, as before described, the directors will then fix their remuneration.

By the next section, 113, it is decreed that every auditor is to have access to the books and documents of the company at all times. The directors and all other officers are to afford the auditors such information or explanation as they may deem it expedient to ask for. The auditors are to make a report to the shareholders on the accounts which they have examined, and on "every balance sheet laid before the company on general meeting," stating—

(*a*) "Whether or not they have obtained all the information and explanations required; and

(*b*) "whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanation given to them, and as shown by the books of the company."

Balance sheets are to be signed by two directors of a company, or, in cases where there is but one director, by that director. If the auditors' report above referred to is not inscribed upon the balance sheet itself, as is usually the case, then some reference to the report must be made at the foot of the balance sheet. The report of the auditors is to be read before the company in general meeting, when that report and the balance sheet to which it refers are to be open to the inspection of all shareholders. Shareholders are further entitled to a copy of the balance sheet and report upon payment of not less than sixpence for each hundred words. It is, however, more usual to find that shareholders receive a printed copy of the balance sheet as well as the directors' and auditors' reports, with the notice convening the meeting. The requirements of the Act are here quoted to indicate the precise rights of the shareholder in this connection. For neglecting to observe the conditions of this section as regards the issuing and signing of the balance sheet, and attaching the auditor's report, the company, as

well as every officer knowingly a party to such default, is liable to a penalty of fifty pounds.

In the case of banking companies registered after the 15th August, 1879, and having branches outside the limits of Europe, it is sufficient if the auditor is allowed access to such copies of extracts from the books and accounts of any such branch as have been sent to the head office of the bank in the United Kingdom. The balance sheets of such banks are to be signed by the secretary, and by at least three directors; if there are less than three directors, then by all directors. In discussing these requirements it should not be overlooked that balance sheets, before being signed as before described, must be formally submitted to, and approved by, the directors at a meeting of the board called for that purpose, at which a proper resolution should be passed approving the balance sheet, and stating the names of the directors who sign it. Shareholders may exercise their rights as to inspection of the balance sheet and auditor's report, before the meeting to which it is to be submitted for their consideration. They may also demand copies of these documents upon the prescribed conditions, at any time. The important provision as to reading the report at the shareholders' meeting was not included in the new provisions of the Companies Act, 1907. This is an instance of an addition to the Consolidation Act, which was simply intended to repeal the various Acts previously governing companies, and to re-enact their clauses without amendment.

The consideration of these two important sections will serve to show how much the position of the auditors has been strengthened in the course of the last few years. The Companies Acts of 1900 and 1907 were practically wholly responsible for this great improvement. Prior to these two statutes the rights and responsibilities of auditors were very imperfectly defined. Unquestionably a great improvement in this direction has been wrought.

The early days of a company's career are now marked by the requirements of section 65, which call for the statutory,

or first, meeting of its shareholders ; and for the preparation of what is termed "the Statutory Report," to be sent to all the shareholders who receive notice of that meeting. There is more than one important point, in connection with this report, which bears upon the accounts. After one month, and not more than three months, from the date of incorporation, every company in its Statutory Report must state, on the prescribed form, the total number of shares allotted for cash, or otherwise than for cash ; the total amount of cash received by the company from its issue of shares ; and an account of its receipts and payments on capital account, together with an account, or estimate, of the preliminary expenses. If auditors have been appointed, they are required to certify as to the accuracy of receipts and payments. Any modification which it is proposed, or has been effected, in any contract required to be mentioned in the prospectus is also to be stated. A copy of the Report is to be filed with the Registrar at Somerset House immediately after circulation. "Private" companies, although not exempt from holding the statutory meeting, are not required to prepare a statutory report.

As regards Table A, the subject of the accounts receives treatment as scanty as that found in the Consolidation Act. We turn practically to the end of the table before we find any mention of accounts, clauses 103 to 108 being designed to regulate the financial administration of a company. As our readers will remember, the requirements of Table A, which forms the first schedule to the Consolidation Act, must be taken as practically laying down the law upon the internal regulation of a company's business. Although it does not of itself take the form of a statutory enactment in the usually accepted term, yet the clauses of the table itself actually apply to the administration of a company on an almost equal footing with the sections of the Act itself, as all companies incorporated under the Act are required either to adopt the provisions of the table, or, to formulate Articles of Association of their own. In the latter event, so far as

the articles do not exclude or modify the regulations of the table, those regulations shall so far as applicable, govern the company as if they were contained in the duly registered articles. Undoubtedly the majority of companies adopt their own articles. For the purposes of this work we may therefore consider the clauses of the table as being on an equal footing with those statutory requirements previously cited in this chapter. In any case, the provisions are particularly meagre as regards accounting matters.

The first clause to demand our consideration is 103, wherein it is provided : "The directors shall cause true accounts to be kept of all sums of money received and expended by the company, and the matter in respect of which such receipt and expenditure takes place, and of all assets and liabilities of the company." The words quoted are those of the table. It will be seen that the manner of providing this information depends solely upon the discretion of the company's executive. It is for them to prescribe and formulate the means of keeping such accounts as will best serve the requirements set out in this all-important clause, which, on the face of it, seems to require very little indeed, but in reality these few meagre words imply a very great deal. They virtually lay down the provision that the whole of the machinery constituting the company's system of financial records shall be of the completest, the most efficient, the most exacting it is possible to devise. The mere keeping of a statement of receipts and expenditure, and a statement of assets and liabilities would fall very short of the mark. The Board of Directors which adopts a too literal view of this important clause of its articles would soon find itself in difficulties with the shareholders. A perusal of the other chapters in this book will convince the reader of the significance of this point, and he will readily perceive that, even in a company of moderate dimensions, there is a vast labyrinth of complicated groups of accounts, the records of which all lead to one focus, in the shape of the balance sheet to be prepared at certain stated intervals. Such, then, is clause 103 of Table A. In it we observe the

statutory provision forming the basis of a company's system of accounts.

Clause 104 states that the books of account are to be kept at the registered office of the company, or at such place or places as the directors may from time to time appoint, and that the said books be always open to the inspection of the board.

By clause 105 it is for the directors to determine to what extent, time, or place, any accounts or books of the company shall be open to the inspection of members, other than the directors, except as provided for by statutory enactment, such as in the case of the register of members, and the register of mortgages. It is most unusual that anyone outside the board of directors is ever allowed to exercise this privilege. The directors, in their fiduciary position, to which they have been elected by their fellow-members, act as the absolute guardians of the company's internal concerns.

The requirements of the next two clauses, 106 and 107, may be read into one another. They lay down the requirement that once, at least, in every year (i.e. for the purposes of most articles a calendar year) a profit and loss account and balance sheet shall be prepared and made up to a date not more than six months preceding the meeting at which they are to be submitted. The balance sheet is to be accompanied by a report of the directors containing a statement of the company's affairs, and the amount they propose to distribute in the way of dividend, or what sums they propose to set aside to establish or augment a reserve fund, and the amounts to be carried forward to the next account.

The other clause, 108, provides that a copy of the balance sheet and report shall be sent to the members seven days before the holding of the meeting appointed to consider these matters.

Some regard must be had to clauses 95 to 102, which define the requirements imposed on the company as to the distribution of profits and the manner in which dividends are to be

declared. Clause 97 is the most important. It states that no dividend shall be paid otherwise than out of profits. This provision must, however, be here stated with some qualification, which, moreover, the articles of the company would have to provide for. By section 91 of the Act it is enacted that a company may, on obtaining the previous sanction of the Board of Trade, pay a dividend not exceeding four per cent during the construction of any buildings or work, the completion of which will be protracted beyond the date of the company's incorporation ; and further, that the payment of such interest or dividend may be charged to capital account as a part of the cost of completing or erecting such buildings or works. The Board of Trade is to specify the time over which such payment out of capital may extend, but in any case it may not be extended over a period of more than six months after the completion of the works, buildings, or plant, as the case may be. Interest so paid is not to operate in any way towards the reduction of the paid up share capital upon which it is paid. The published accounts of the company are to show the share capital upon which interest has been paid under this section, and the rate of the interest.

Another important clause is 102, where we find that no dividend shall bear interest against the company. In effect, this means that unclaimed dividends are not subject to any superadded rate of interest.

A new requirement imposed by section 33 of the Finance Act, 1924, is the provision that all dividend warrants or cheques in payment of dividends or interest must have annexed thereto or be accompanied by a statement in writing giving explanatory details of income tax deductions relating to the dividends or interest. (*See* pages 245 and 406.)

In concluding our review of the statutory provisions on the subject of accounts, all interested in these matters, whether students or professional practitioners, should lay well to heart the judgment of Lord Justice Buckley in the case of *Newton* v. *Birmingham Small Arms Company, Ltd.*

(1906), 2 Chan., p. 380. The first part of his lordship's finding is given as follows—

"The Companies Act, 1862, was silent as to accounts. Table A (which the Company might or might not adopt as it chose) contained provisions on the subject, but otherwise the Act left the matter untouched, relying, no doubt, upon the application of the ordinary principles applicable as between partners, and proceeds upon the footing that the members of a company under the Act are partners in a special sort of partnership modified and governed by statutory provisions."

CHAPTER II

PRELIMINARY CONSIDERATIONS PRIOR TO INCORPORATION

ALTHOUGH it may be said that the accountant proper would play a very small rôle until the incorporation of a company was an accomplished fact, the necessity of having all possible arrangements completed at the earliest possible moment is undoubtedly an advantage. The whole machinery of the routine surrounding the flotation of limited companies is even now exceedingly cumbrous, despite the comparatively easy legal code which now shapes its principles. The thousand and one details arising at the inception of a company's career are exceedingly complex, and entail in most instances some connection with the financial books, which have to be in working order at the earliest possible moment after the date of receiving the certificate of registration embodying its incorporation as a joint stock concern.

The first matters requiring treatment will, in some cases, be those connected with the expenses consequent upon the formation, usually described as "Preliminary Expenses." It frequently will be found that the cost of starting a company may be met by a syndicate or firm from which the company derives its business as a going concern, in which case the officials may possibly be relieved of the onus of recording the various details in this connection.

The usual course is to include under the category of "Preliminary Expenses" all such items as Stamp Duties, Solicitors', Auditors', and Brokers' fees, the cost of formulating the Prospectus, Memorandum, and Articles of Association, advertising, valuer's charges, or other expenditure for professional or expert services which may have been rendered, clerical work, and the printing of all documents, and the cost of stationery required up to the stage of allotment. The law allows that as soon as a company is entitled to commence its business

operations, it must first have proceeded to allot, under certain prescribed conditions, the shares which have been applied for, so that at the moment of completing such an allotment the company may be said to be fully fledged. It will thus be obvious that if these preliminary charges have not been discharged by the vendor or vendors from whom the business has been acquired by the company under flotation, an item of expenditure has been created which demands the most careful treatment at the hands of those officials responsible for the welfare of the company.

The first books of account required by all commercial or industrial enterprises are the Cash Book, Journal, and Ledger. Where a company of any considerable size is in contemplation, these three books need to be of no modest dimensions. They should be brought into use as soon as possible after the company's existence becomes an accomplished fact. Agenda Books and Minute Books may not be considered as belonging to the financial transactions proper, but both are inseparable links between such records as contain narrative entries of decisions agreed upon by the prospective board, and those records contained in such books provided solely for the purpose of detailing monetary receipts and expenditure, or for recording obligations for and against the company. These books cannot be brought into use until the company is actually registered at Somerset House, but all discussions between promoters and the prospective directors prior to registration must be fully recorded on separate papers and carefully preserved for future reference. Agenda should be drawn up for all these preliminary proceedings, and proper minutes completed dealing with all the decisions arrived at. All drafts of skeleton Prospectuses and of Memorandum and Articles of Association should also be retained, showing each stage of revision.

When the requirements of the Board of Trade officials have been satisfied, and the Certificate of Incorporation is granted, the books before mentioned should be ready for use. The Agenda and Minute Books will be requisitioned

for the first official board meeting, to be held for the purpose of appointing all officials, publishing the prospectus, making arrangements with bankers and brokers, deciding upon the seal and its custody, settling details as to administration of business routine, the organisation of the system of accounts, and the procuration of the necessary books, stationery, and official equipment.

The Prospectus and Memorandum and Articles of Association having been definitely decided upon and finally made public, the officials or official responsible for the planning of the accounts should, at this early stage, study those documents closely and extract details of all matter pertaining to the financial side of the question. To take the prospectus first, the more salient points dealing with financial details will be in all probability as follows—

(i) The nominal or authorised capital of the company, and full details as to its division into the different classes of shares and their numbers; the nominal value of each class of share; the precise description of the shares, particularly the priorities borne one over the other, and the amount of any stated dividend payable upon any class, and any conditions to be observed regarding the payment of dividend or the respective rights of shareholders as to distribution of surplus assets in the event of winding up or realisation of the company's business in liquidation.

(ii) Full details of any debenture issues, showing the conditions under which they are created ; whether under a Trust Deed ; particulars of the property to be acquired over which a charge of mortgage will be held ; the rate of interest payable ; and the dates and conditions under which they are to be redeemed (if any).

(iii) The minimum number of shares to be subscribed for before the Board is at liberty to proceed to allotment. If no minimum is stated, the whole amount offered for subscription must be applied for before allotment can be commenced.

(iv) Particulars as to any shares or debentures to be allotted in kind, i.e. otherwise than for cash, e.g. those to be allotted

to the vendors in part or whole consideration for the business taken over, or in lieu of services rendered; whether the shares or debentures so allotted are to be issued as fully or only partly paid up and full particulars of the consideration for any such allotment. This should be obtained from the actual contract.

(v) The names and addresses of the vendor or vendors from whom the company is to acquire its property, with details, e.g. the amount agreed upon as the value of the property and the consideration to be paid to each vendor, and as to how the payment is to be made, whether in cash, shares or debentures. This can and should be obtained from the actual contract.

(vi) Particulars as to the total purchase price of all property to be acquired for the company and the total amounts to be paid therefor in cash, shares or debentures.

(vii) The amount to be taken by the company as part of the property to be under the amount of Goodwill.

(viii) Details of any arrangements made for underwriting the issues of either shares or debentures, and the amount of commission payable for agreeing to subscribe in this manner. Underwriting contracts should be perused for this information.

(ix) The estimated amount of the cost of floating the company, or, if these preliminary expenses are to be borne by the vendors the extent to which the obligation applies, whether up to the date of incorporation or first allotment of shares embracing the first issue.

(x) Particulars as to amounts payable to any promoter and the consideration for any such payment. (Refer to contract.)

(xi) An epitome of any " material " contract entered into consequent upon the promotion of the company. A material contract is not held to include such contracts as merely embrace conditions arising out of the ordinary routine of business—assuming the business or businesses to be taken over are going concerns. A contract to be considered at this stage would be, for instance, the agreement or agreements for

Sale and Purchase between vendors and the company, or an agreement for service between a Managing Director or Managers, or a professional expert and the company, tenable for a certain number of years.

The foregoing points are required by law to be stated in the prospectus of all companies seeking to be incorporated under the Companies Acts, and every detail demands the closest attention of all officials who are to be held responsible for the organisation of a company's financial records. Due regard must be had to every point enumerated above before the system of accounts can be embarked upon.

In the majority of cases, at all events where a company is of the average size—one, for example, seeking to have its shares or debentures quoted on the official list of the Stock Exchange—arrangements would be made with the company's bankers for receiving the cash (known as the application money) to be paid on deposit by would-be shareholders. The bank will be in possession of all details concerning the proposed issue of shares, as it will require copies of the Prospectus and Memorandum and Articles of Association. The usual plan is to arrange with the bankers to open, in addition to a general cash account, separate accounts for the receipt of applications paid to them under the heads of the several classes of shares and debentures ; and, at a later stage, when the period of allotments has arrived, to open further accounts for the receipt of the later payments accruing on the allotted shares, for allotment moneys and calls when due. In all cases receipts on account of the various classes of shares are kept in quite distinct accounts, the bank preparing a pass book for each account. To facilitate these arrangements, the bankers will probably require application forms to be printed on paper of distinctive colours for each class of share. A colour once adopted for, say, the preference shares, will be adhered to throughout the whole history of those shares. This plan should be applied to allotment notices or letters, call notices, letters of regret, dividend warrants, and share certificates. This

system practically secures the whole scheme from the danger of confusing one class of share or debenture with another.

In a succeeding chapter it is proposed to consider, as fully as possible, the whole course to be followed in this, the first stage of the company's financial affairs. The receipt of the capital moneys will be dealt with to the fullest extent, and minute examples given as to the method of dealing with payments made to the bankers, until the various shares accounts are closed and incorporated with the general financial records.

CHAPTER III

ORGANISING AND ADMINISTRATION

THE tentacles of the accountant's or secretary's department extend to every limit of a company's concerns. Other departments may have little or no relation with each other, but the secretarial or accounting branches of the executive have their connecting link with all. The registrar's department is, perhaps, more independent than any. We purpose in the next few pages to delineate the general outlines upon which the executive machinery of the modern industrial or commercial company may be planned. The majority of the principles we shall enunciate will be applicable to practically all limited liability concerns coming within this category. Those of a financial nature, such as banking or insurance companies, are run to a large extent upon customs which in some degree depart from those methods generally followed in ordinary businesses of a purely commercial or industrial nature.

Over eighty per cent of the many thousands of companies carrying on business in the Kingdom have been formed for the purpose of carrying on enterprises of either a manufacturing or retail kind, or both; the employment of labour, the consumption of raw material, or the distribution of the manufactured product forming the chief operations of such concerns. It is evident, nevertheless, that a vast number of companies which come within this description have their own especial characteristics, which may demand particular treatment. It is unlikely, however, that their requirements would depart from the general outlines of administration in any material degree, and it would be easy so to modify the lines here suggested that they would meet any particular case. A thorough standardisation of methods will in all probability never be attained, though there can be no doubt that, in recent years, the interchange of ideas by business men

on the subject of individual commercial organisation has done a great deal towards it. Certain it is that in the average counting house a much higher state of efficiency will be found than was the case even a decade back, and with the aid of different institutions, the object of whose existence it is to promulgate and encourage the various improvements in business administration, this state of general efficiency will increase.

The following matters demand the closest attention and study of all who are responsible for the administration of any company's affairs. It may be the most convenient to deal with them under four separate heads—

(i) Financial.

(ii) Labour and Purchase of Goods, or Raw Material.

(iii) Sale of Goods, and Distribution.

(iv) Registrar's Department.

These four main divisions, of course, embrace a host of minor matters which we shall have to consider. As stated above, they represent a concise and convenient epitome of the subject. The counting house of the average sized company would certainly possess departments for the first three, whilst, if its shares were listed on the Stock Exchange, a separate one would probably be needed to deal with business under that head. As to the actual personnel of the administration, we cannot, of course, say much, but in the majority of cases the secretary is held responsible for the whole of the other officials, the accountant and the registrar being in their turn responsible to him. On the other hand, the accountant is, in some cases, found as an independent official responsible solely to the board. The duties of the registrar are, practically in all companies, carried out under the ægis of the secretary; there are a few exceptions, however.

Financial Matters

(i) For the greater convenience of carrying out the principles of adjustment accounts as they should be applied to

both the "bought" and "sold" departments of the counting house, it is desirable that two channels be established for cash transactions, each being directly responsible to the secretary or the accountant. In the chapter dealing with cash accounts this principle will be exemplified.

(ii) Moneys received from shareholders resulting from an issue of shares, must be separately recorded, even in a small company. In large concerns separate cash receipt books must be provided, and whether kept by the accountant's or registrar's department, the totals should be passed direct to the general cash book. Where only a small number of shareholders is found, the receipts may be entered direct to the general cash book. It is essential that cash transactions of shareholders, trade creditors and debtors be kept rigidly distinct, though naturally in very small companies of a strictly private or family character, this precaution will be unnecessary, or rather, owing to the small staff, impracticable.

For moderate sized companies, where it is considered undesirable to have a separate cash book for shareholders' transactions, it may be convenient to analyse the cash book separately so as to preserve a separate record of entries affecting shareholders' accounts. This principle, of course, applies with equal force to payments (dividends, etc.) to shareholders as well as to moneys received on capital account.

(iii) Receipts from shareholders and debenture holders will be treated in the manner described in Chapters IV, V, and IX, dealing with those subjects.

(iv) Receipts from trade debtors should be acknowledged by means of manifold receipt books; the numbers of the receipts being duplicated on the manifold copy, this number being in its turn recorded in the cash receipts book.

(v) All payments by the company will be sanctioned by the board at their meetings, usually held at regular intervals, when statements of ways and means will be submitted with a list of accounts for payment, the list being accompanied by the vouchers or creditors' statements, as described in

Chapter XIX. When sanctioned and discharged, the payments must be recorded in the Cash Payments Book.

(vi) If practicable, those persons who are responsible for the payment or receipt of cash should have no control whatever over the books dealing with debtors or creditors. It is at all times advisable that cashiers and book-keepers should be kept rigidly distinct except in cases where the secretary, accountant, or other chief of the counting house exercises a close scrutiny over the financial affairs to the extent of actually checking the entries and transactions of his subordinates.

(vii) Payments for wages, whether for manufacturing or mercantile enterprises, demand the most careful precautions to guard against fraud or leakage. In factories, the employee's time-sheets are to be checked and signed both by the employee and the overseer, then entered upon the wages sheet, which in turn is checked and countersigned by the works manager. In large emporiums the same principle should be followed. In no case should the paying cashier hand over any money for wages until time-sheets or pay dockets have been vouched for payment by some responsible official having direct control of the employees, but who does not himself handle the cash. As the wages account will not be made up at such a time to accord with a directors' meeting, the difficulty of being unable to draw a cheque for the actual week's total is met by the plan of advancing an adequate sum at the board meeting immediately preceding the week-end; whilst in the succeeding week a cheque equal to the previous week's wages will be drawn, thus maintaining a fluctuating balance in hand from week to week. This balance should be checked each week by the "chief."

(viii) Payments from Petty Cash are best dealt with in the manner suggested for wages account. Some rule should be devised, however, to prevent the payment of any account larger than say £2, except by cheque. The Petty Cash Account may be conveniently subdivided into other accounts of a similar nature, as for instance, postage account, factory

COLUMNAR PETTY CASH BOOK

Dr. *Cr.*

19..		C.B.	£	s.	d.	19..		Total.			Carriage and Cartage.			Stamps and Postages.			Travelling Expenses.			Ledger Accounts.			Fo.
Nov. 6	To Cash	6	30	–	–																		
						Nov. 6	By L. M. & S. Rly.		7	7		7	7										P.L.
						,, 7	,, Ball, Ltd. .		4	2											4	5	
						,, 8	,, Stamps . .	1	–	–				1	–	–							
						,, 9	,, Expenses .		2	6								2	6				
						,, 13	,, Parcel . .		1	8		1	8										
						,, 17	,, String . .			3			3										
						,, 20	,, G.W. Rly. .	1	9	6	1	9	6										
						,, 23	,, Expenses .		3	3								3	3				
						,, 27	,, Stamps . .		5	–					5	–							S.L.
						,, 29	,, Avery . .	1	–	–										1	–	–	10
						,, 30	,, G.W. Rly. .	1	3	7	1	3	7										
Nov. 30	To Cash	C.B. 21	5	17	6																		
						,, 30		5	17	6	£3	2	7	£1	5	–	£–	5	9	£1	4	2	
							,, Balance c.d. .	30	–	–													
		£	35	17	6		£	35	17	6													
Dec. 1	To Bal.	b.d.	30	–	–																		

The totals of these columns are posted to the debit of the respective expense accounts.

petty cash and sundry goods, but in all cases proper vouchers must be installed, no payment being advanced except upon the authority of some responsible person, such as an overseer or shopwalker, as the case may be. If separate petty cash accounts are in use, different coloured vouchers should be employed as a ready means of distinction, and all vouchers should be machine numbered to correspond with the entries in the petty cash books.

The best method of dealing with Petty Cash is that known as the " Imprest System " under which the petty cashier is handed a round sum, say £30, estimated to be sufficient to cover his requirements for a certain period, weekly or monthly, as the case may be. At the end of that period, the exact expenditure is refunded to the petty cashier so that the new period is commenced with the exact imprest amount. It is advantageous to arrange the Petty Cash Book in columnar form with additional analysis columns on the credit side so that the expenditure may be analysed, as it occurs, under suitable headings. An example is given on page 33.

(ix) All cash receipts should be paid into the bank daily, a record of such payment being made in the cash receipts books to correspond with the total amount received for the day. The amount should also be entered in the general cash book, generally in the charge of the secretary himself or the assistant secretary, who will examine and compare the banker's voucher of the payment. All cash accounts should be balanced regularly each night. The bank pass books should be reconciled at least once a week, and also just prior to the date of board meetings, in order that an up-to-date statement of the financial statistics may be submitted.

Sales Department

(i) Before detailing the various conditions to be observed in organising the business arrangements in this connection, we must consider that, in practically every direction, each point to be observed has more or less relation to those previously laid down under the heading of cash transactions

concerning receipts from trade debtors. So in reviewing the following notes, close regard must be had to such matters under those heads in order that the business details between the two departments may be so engineered as to admit of the greatest efficiency and precision without admitting any feature of unnecessary overlapping or undue clerical labour.

(ii) Except with retail businesses doing a cash or counter trade, it is now almost an universal custom to receive a written order from a customer to whom goods are to be supplied, or where orders are received through the agency of outside representatives, a similar written request from that representative would be used. In both cases some documentary evidence exists, more or less easy to substantiate, upon which to found a basis of every transaction embodying the sale of goods. These orders, whether received through the post, by the medium of a customer's messenger, or from the firm's traveller, are first subjected to the examination of some responsible member of the sales department, and recorded in the sales order book. From this book, departmental instruction dockets and slips are prepared and handed on to the warehouse and packing rooms, where, after being checked with the goods represented, they are passed on to the invoicing clerks.

(iii) Non-credit giving businesses, or whatever cash trade is transacted, will require somewhat different consideration from that outlined in the last paragraph. Here, as far as the customer is concerned, no actual documentary evidence is to be found, but almost all commercial houses now require their salesmen or shop assistants to prepare some record of their transactions with each customer. This is generally done on the manifold principle, each account of sale being examined and checked by a shopwalker or other responsible person, a third party, in the person of the receiving cashier, being concerned in the transaction on behalf of the business. Such an arrangement, involving as it does three employees, almost effectually prevents any derangement or fraud.

(iv) Modern devices known as billing machines or typewriters

specially constructed for the purpose of invoicing goods outwards are now widely used, and the installation of such a machine cannot be too strongly commended. These machines are capable of preparing simultaneously the invoice, day book, advice note, and label for addressing the goods to the consignee, whilst a most useful auxiliary contrivance operating in conjunction with the machine, automatically adds up the day's total discharged by each operator. Other machines are also available for posting to the ledgers and preparing monthly statements. Whether such machinery is utilised or not, it is essential, and by no means difficult, so to arrange the invoicing and sales department upon this basis which will give the same results, except, of course, the mechanical addition of the turnover. The main consideration is that if practicable, the invoice, day book, advice note and label be prepared at one operation and as expeditiously as possible ; the day book being founded on the manifold loose-leaf pattern and bound up into binders for each week or such other period as may be found suitable. Above all, the most unremitting care must be bestowed on these arrangements to ensure the impossibility of any goods being delivered without being charged up to the debit of the customer.

(v) Departmentalisation of sales must be so disposed as best coincides with the nature of the business. It should be arranged, however, on such lines as will fit in with the general characteristics of different departments of the business involved. If it be assumed that all sales pass through one channel, and that, say, there are four distinct classes of goods, each dealt with in a separate department controlled by a more or less independent manager, then a given invoice containing goods from these departments collectively must be subjected to analysis either on the day book sheets, or subsequent abstraction from them, so that the turnover of all departments may be known, preferably from day to day.

(vi) The arrangement of debtors or sale ledgers, must, according to circumstances, depend upon the nature and size of the business. In large houses, doing town, country and foreign

trade, it is oftentimes found expedient to divide the sale ledgers' staff into corresponding sections, the foreign ledgers acting in conjunction with the shipping or export department, the country with post orders and so on. These sections of the sales ledger department may be subdivided, such as country ledgers, A to F; G to K; L to R; and S to Z, as may be found necessary. Again, where orders reaching the house almost solely depend upon the efforts of travellers to whom are allotted certain territories, the ledgers may be planned on similar topographical lines to represent the field of operations of each representative. This is especially convenient if commission is paid to these persons, as failing such a division of the ledgers, it becomes necessary to mark each debtor's account, and after the monthly or other periodical balancing, prepare an abstract of the travellers' commissions accounts. Whilst on the subject of sales ledgers, the question presents itself of co-ordinating the cash invoices and returns, to correspond, if possible, with the sections of the ledgers. With most concerns it is found convenient to direct the invoices into the same channels as employed for the ledgers. As regards the cash receipts and returns, no difficulty should be experienced. These precautions are vital as will be seen by a perusal of the chapter dealing with adjustment accounts. Properly conducted commercial houses positively demand a monthly balancing of accounts in order that smooth working of the administration may be ensured. It is necessary, moreover, that an accurate means of ascertaining the financial affairs should be forthcoming for the consideration of the board at periodical intervals; the sales and bought ledgers for preference, monthly; and other ledgers at least every quarter. Unless this is done, the balancing of large systems of account books becomes a more or less difficult and expensive matter. It also inevitably means delay in preparing the accounts for the audit whether for a half-yearly or annual balancing of the books, unless the self-balancing principle is employed and rigidly carried out at arranged periods.

(vii) As soon as the sales ledgers are agreed and the balances

of the debtors are known, statements of accounts should be prepared and dispatched with as little delay as possible. A list of the balances with the customers' names should be immediately prepared by each book-keeper, who will submit his list to the counting house chief. The list will contain such annotations as may be required against the names of any defaulters or any disputed debts which may need adjustment. The closest attention must be paid to all overdue accounts to guard against losses under this head.

Bought Department and Establishment Outlay

(i) Stores and stock ledgers to be kept in the warehouse or factory must be provided, their dispositions to be so devised as will best meet the nature of the materials or goods coming into the business. In a manufacturing concern, it is essential to observe a strict line of demarcation between raw material or stores, and the manufactured products arising from the combined result of productive labour and the materials consumed. It is convenient to keep account of material or stores used for the purpose of manufacture under the denomination of "Stores Ledgers," whilst the manufactured goods or component parts of a partly finished article will be recorded in Stock Ledgers. The latter books will be found to work in conjunction with the Sales department, the former being in the main concerned with the bought ledger side of the counting house. In purely wholesale or retail houses, the necessity for stores accounts would of course not arise. In their case, however, it is advisable, if at all practicable, to keep some system of stock accounts.

(ii) All goods when delivered should be entered into corresponding accounts in the stores ledger, the name of the firm supplying the articles, the quantity and price being recorded. When the invoice has been received, passed, and handed on to the bought department of the counting house for entry into the bought day book, subsequently to be credited to the suppliers, a note of such checking must be made in the stores account to that effect. This is a safeguard against passing

any duplicate. The vouching of the invoice for the goods received will be carried out as to quantity and price by responsible officials in the warehouses or stores, afterwards being dealt with in the counting house as to checking of calculations, discounts or other items. Subsequently it will be entered in the invoice or bought books and from there posted to the bought ledgers. Throughout all these processes it is desirable that means shall be forthcoming to trace the identity of the person performing each function. To assure this, a rubber stamp should be provided whereon space is given to record the initials of the various employees under whose care the invoice passes from the point of its reception to the time when it is passed to the credit of its appointed account in the bought ledgers.

(iii) Invoice books inwards or bought day books should be ruled in such a style as will admit of the analysing of the various purchases and other items of outlay. Thus, where the manufacture of goods is concerned, the principal items of raw material consumed should be provided with a column, or columns. Where an article in process of manufacture passes through two or more definite stages before being completed, each stage probably being represented by a separate department or workshop, appropriate columns should be provided. As the majority of industries are divided into a number of separate and entirely distinct processes, it is very desirable that steps should be taken to ascertain the amount of labour expended and materials consumed. The case is the same with retail companies, where it is commonly found that, with a business doing, say, a trade in three or four distinct classes of commodities, each is a separate branch of trade in itself. In hundreds of the large emporiums up and down the land we find under one roof, drapery, furnishing, boots, hardware, and other goods. For all such, the purchases under each head must be known. In the absence of such information it is impossible for directors to obtain the requisite data needed for individual returns of trading or economic administration. Stocks, sales, and wages being based upon the same principle,

will ensure the necessary information for the several divisions of factory or shop.

(iv) The payment of accounts will be arranged at stated intervals, and must be so conducted as to safeguard against loss arising in any respect as to discount, duplication of invoices or overcharges on behalf of trade creditors. Adequate means should be secured to debit all accounts with returns and allowances, preferably from a book kept for the purpose in the warehouse to denote every kind of empties returned or claims for rebate. This is better than relying upon credit notes, though they should be obtained, checked, and passed on to the counting house to be checked with the debits in the bought ledgers made from the returns book above mentioned.

(v) Accounts passed for payment should be vouched by the chief of the counting house, who should periodically go through the bought ledgers to see that all accounts are promptly cleared up at the arranged times. All creditors' accounts in those ledgers should be provided in a conspicuous manner with any information pertaining to each creditor as to terms of discount or special time for payment, expiration of contracts, etc. Lists should be prepared of all accounts to be brought up for settlement at each board meeting, the vouched statements being presented with the list. It is the business of the counting house chief to scrutinise every voucher passing to the invoice book. This is the basis for every payment made by the company. The directors in their fiduciary position as the guardians of the shareholders' property, are of course primarily responsible for this, but the virtual burden rests upon the controller of the staff who carries out the duties we have described. He in his turn is responsible to the board. It behoves all who have to organise and administer these duties to display that zeal and industry the subject demands, that unremitting care and enterprise without which no lasting success can be achieved.

We have thus in the preceding pages of this chapter outlined in the briefest manner the salient points to be considered when setting out to organise or remodel any one of those

thousands of companies which carry on the industries and trades of this kingdom. The general principles may, in the main, be taken as an indication of what is required for practically all concerns. Enterprises formed with the object of carrying on some public service such as railways, tramways, canals, gas, water, and electric light companies, as well as financial companies, have their own especial methods, each to a greater or lesser extent varying in some degree or other.

CHAPTER IV

SHARE APPLICATIONS AND ALLOTMENTS

THE procedure adopted in the promotion of a company, in connection with the issue of share capital, may be said to be practically common to all, whatever the purpose for which the company is being formed. This is true also with regard to shares accounts generally. Concerns promoted with the object of carrying on any trade or business, whether manufacturing, or wholesale or retail, mines, gas, water, banks, insurance, railways, or the hundred and one other objects for which the multitudes of companies now in existence are created, all require practically the same treatment in devising the recording system regarding the accounts of their members.

As it is the primary object of this work to deal as fully and completely as possible with this branch of joint stock administration, it is desired in this chapter to set out in detail the whole procedure to be observed in the earliest stages of the members' accounts. The first book which usually requires attention is the applications and allotments book, but in modern practice, applications and allotments are now more generally listed on loose sheets, the sheets being bound together in book form after the allotment is completed, share certificates issued and the register of members compiled. A specimen page of such book being given on pages 48 and 49 (which is in a more or less complicated tabular form). The information shown cannot, however, be disregarded. It is there given in such a form as will meet the conditions more generally required, but can of course be so altered as may be necessary to meet any particular requirements, and to suit the needs of almost any situation of this kind. It is often found that in addition to the provision made for the applications, allotments, and return of application money, further columns are given to deal with the payment of further

amounts due and to be received on the shares, in the shape of calls. In some cases extra columns are also provided for different classes of shares. This is a very good plan indeed where it is desired to keep the whole of this information under one cover, so to speak; but the result is a ruled page of extremely awkward and unwieldy dimensions. In the majority of cases it is more usual to find separate call lists prepared, even in instances where only two further instalments after allotment are specified in the prospectus covering the issue. Again, it is quite a common thing to find that the dates of calls to be made upon shares are more or less indefinite, or dependent upon the performance of certain stated acts, or the gradual completion of buildings, sinking of colliery pits, construction of railways, etc., up to a certain point. In all cases of this character, it would undoubtedly be wiser to keep the accounts for applications and allotments quite distinct from those intended for calls; especially so as it is frequently found that shares once allotted change hands by the process of transfer to an astonishing extent if the securities are much sought after. In such cases, the recording of the various instalments as they are received would entail a very great amount of labour in referring forward to the accounts of the buyers who undertake the obligations of the allottees on the date of purchase—assuming that the shares change hands upon those conditions, an almost invariable custom.

It will be assumed that the applications list under consideration is for an issue of preference shares, though precisely the same conditions would apply for shares of any other class, or for debentures. The columns given on the specimen are numbered for the purpose of reference in the text. We will therefore proceed to deal with them seriatim, starting from the left-hand side—

Column 1 deals with the numerical order in which the applications are received at the bank. It is the usual custom to obtain these forms from the bankers so soon as they have been dealt with there. They should be kept in precisely the same order as they are recorded in the

application account for the class of share to which they belong, the same order being followed in entering up the pass book representing that account. Care must consequently be exercised in preserving the order in which they are handed over by the bank officials. The applications should be numbered in strict serial rotation and entered in the list in that order. It is well to use for this work one of the well-known devices known as a numerator, a small inexpensive little hand machine which comes in extremely useful for a variety of purposes in all large offices where documents are filed in numerical order. These simple machines are so constructed as to number in duplicate, thus enabling the operator to imprint the number in the desired spaces on the form and also on to the list. This method is much more expeditious than writing the numbers, is certainly much neater, and, above all, accurate.

Columns 2, 3, 4 and 5 contain spaces for names, addresses, and descriptions of the applicants. It is very essential that details in regard to the names of female applicants should receive the closest scrutiny. Married ladies who neglect to give the names of their husbands should be communicated with immediately for the purpose of obtaining this information. Ladies who omit to state whether they are married, widows, or spinsters must also be asked to provide these particulars.

Columns 6 and 7 contain the number of shares applied for and the amount paid by the applicant. Unfortunately, this amount does not always give the correct figure representing the sum to be deposited on application. A great number of people pay the full amount of the shares, possibly with the hope that they will thereby gain greater consideration at the hands of the Board when making the allotments. Whatever the idea may be, the habit is by no means uncommon. It is essential that all such matters should be looked for, and in all cases the amount of the deposit should be agreed with the number of the shares applied for on each

form. The totals at the foot of each page should be similarly agreed, such surplus payments as mentioned above being duly allowed for. Sometimes the prospectus provides that interest will be allowed on the extra money paid in advance of due date, but unless the articles of association and the prospectus authorise such an allowance or payment, it cannot be given.

Columns 1 to 7 thus provide the necessary matter up to the completion of the applications list, the total of which must agree with the totals given by the bank pass book. Where the list is open for more than one day, it will be well that the list be completed for that day and agreed to that point, and so on for the lists of other classes of shares or debentures comprising the issue. In any case, the applications must be compiled ready for consideration by the directors, who will proceed with the task of allotting the shares at the earliest possible date.

An important point to bear in mind is "earmarked" applications or forms which bear the initials of a director. These forms are so marked in order to be singled out for special consideration, and any forms bearing marks of this description must be notified in the remarks column on the list, so as to attract special attention.

The drafting of a suitable form of book for the applications and allotments list demands a considerable amount of care and consideration. The cash columns must be so devised as to arrange in the most convenient manner for the various cases under which a given application for shares has to be dealt with. The major portion of the companies now promoted do not meet with the huge number of small investors' applications, such as was the case in the great industrial "boom" at the opening of this century, the rubber "boom" of a few years ago, or even the more recent "after-the-war boom." Nevertheless, it is necessary in all cases to make the requisite provisions for all likely situations, each of which requires to be treated in its own special way. There are applications for shares, the whole of which will be allotted,

In the greater number of instances, this will be the case, as there are few promotions nowadays where the applications exceed the number of shares offered for subscription. In successful issues there will be, in addition to the class of application above mentioned, those for which no shares, or only a portion of those applied for, can be allotted. If a partial allotment is made, the whole of the application, or deposit money may be just sufficient to meet the amount due on application and allotment; it may be insufficient or there may be a surplus to be returned to the shareholder. Allotment letters need not be printed until the subscription lists close, when a good idea can be formed as to the extent and nature of the allotment for each class of share. When allotments are made, as they should be, within the smallest amount of time after receipt of the applications, the preparation of the Letters of Allotment does not need to be considered until the allotment itself has been decided, when the number and nature of the allotment letters can be settled. Should the board have to deal with a large surplus of deposits, four classes of Allotment Letters will be required—

(i) Stating that the full number of shares has been allotted and requesting that the amount due on allotment be paid by a certain specified date.

(ii) Regretting the Board's inability to allot the whole number of the shares applied for, and giving the number they have allotted, and, if the amount paid on deposit is insufficient to meet the sum due on allotment, requesting a balance to be paid.

(iii) Regretting the Board's inability to allot more shares than such a number as will just absorb the amount paid on deposit for application and allotment, leaving no further sum due until a call is made.

(iv) Regretting that the Board are able to allot only a certain number of shares to the applicant, stating the amount due on allotment, which will leave a certain amount to be refunded to the applicant from the deposit money, after absorbing the amount due on allotment.

In addition to these four possible instances, another form will be required when no allotment is made to the applicant, and the whole of the deposit money is to be returned. This case is somewhat analogous to the last of the four above stated, but requires a totally different form of "Letter," as it is not an allotment. Such a form accompanying the returned money is known as a Letter of Regret, and must be treated in quite a distinct manner. The cashing of the cheque attached to a Letter of Regret at the company's bank severs all relationship between the company and the applicant in respect of the shares applied for. In the matter of returning money to an applicant when a partial allotment has been made, the situation is wholly different, as the company still have a claim upon the applicant, who is now a shareholder, for the further calls due at prescribed dates, or under certain other defined conditions, upon the shares represented by the allotment letter.

The reader will appreciate the necessity for treating the application list in a somewhat wide and inclusive form. It will be obvious from what has been stated of the divergent characteristics under which an application for shares may be treated in an oversubscribed list, that the ruling of this book must be such as will show at a glance the manner under which each separate applicant has been treated. On the form of application and allotments list, given on pages 48 and 49, a full illustration of the instances named will be at once apparent.

For large flotations it will be impossible for one person to prepare this list of applications, as the list must be entered up and completed as soon as possible after the closing of the subscription lists. To accomplish this the more readily, it is advisable to have the sheets which are required to make up the list of applicants, so ruled that each contains twenty-five names to a page. A sufficient number of sheets are then temporarily placed in loose-leaf binding covers, each cover containing ten pages and thus accommodating two hundred and fifty names to each book. A book is given over to an

APPLICATION AND ALLOTMENT LIST FOR CUMULATIVE

No. of application.	Applicants.		Address.	Description or occupation.	No. of shares applied for.	Amount paid on Deposit at 5s. per share.			No. of shares allotted.	Distinctive numbers.		No. of Allotment Letter.	Amount due on application and allotment at 10s. per share.		
	Surname.	Christian Name.								From.	To.				
1	*North*	*Edward J.*	*The Drive, Claverton, Beds.*	*Farmer*	100	£25	0	0	100	1	100	1	£50	0	0
2	*Barrett*	*Samuel A.*	9 *Denzil Avenue, Chester.*	*H.M.C.S.*	50	12	10	0	25	101	125	2	12	10	0
3	*Harcott*	*Henry W.*	*c/o Cox & Co., Charing Cross, S.W.*1.	*Colonel*	1000	250	0	0	400	126	525	3	200	0	0
4	*Simpson*	*Louisa J.*	1 *Westbury Grove, Balham, S.W.*12.	*Spinster*	300	75	0	0	200	526	725	4	100	0	0
5	*Bolwell*	*Susan*	1 *Clapton Rise, West Ham, E.*15.	*Widow*	50	12	10	0							
(1)	(2)	(3)	(4)	(5)	(6)		(7)		(8)	(9)		(10)		(11)	

PREFERENCE SHARES WITH AMOUNTS REFUNDED

No. of Share Certificates.	Folio of Share Ledger.	Balance due on Allotment.			Amounts paid by Allottees.			Amounts returned to Allottees.			No. of Letter of Regret.	Amounts returned to Applicants in full.			Date of Payment.	Remarks.
															192..	
1.	1/1	£25	0	0	£25	0	0								Oct. 8	
2.	1/1															
3.	1/2							£50	0	0						
4.	1/2	25	0	0	25	0	0								Oct. 13	
											1	£12	10	0		
(12)	(13)		(14)			(15)			(16)		(17)		(18)		(19)	(20)

individual, with the first two hundred and fifty forms after they have been numbered on receipt from the bank, and so on with the same number to each book, which, for the time, serves a a subsection of the whole list for one of the classes of shares. Thus the whole list is in progress in batches simultaneously.

We have previously urged the importance of quickly completing the application list. This is very necessary for two reasons, the first being, to agree the total amounts shown in the bank pass book with the total shown in the first cash column of the application list, and, secondly, when so agreed, to place the list before the Board for consideration as to allotting the shares. In connection with this second point it is as well to bear in mind that any application for shares may be withdrawn at any time until the Letter of Allotment has been posted. Once this has been dispatched to the shareholder it is irrevocable; the act of posting the letter completes the contract between the applicant and the company, and from that moment the obligations attaching to the shares become binding on the holder. If a letter of withdrawal is received before the allotment letter is posted, any provisional entries in the allotment columns (Nos. 8 to 14) of the Application and Allotment Sheets must be cancelled by being ruled through in red ink and a note of the withdrawal entered in the "remarks" column. When the money is returned, the amount and date is recorded in columns Nos. 18 and 19.

In addition to these two cogent points is the desirability of an early opening up of the members' registers and share ledgers, into which all allotments have to be posted, together with the various amounts paid on deposit, due and paid on allotment, as the case may be. This cannot be done until allotments have been completed, and delay with this portion of the work will mean hopeless confusion when the later stages have to be considered.

Furthermore there arises the task of numbering the shares, which must be deferred until such time as the allotment of a certain class of share has been definitely fixed by the board,

and the minute passed by them giving the number of shares allotted and the distinctive numbers of the shares. While on the subject of the numbering of shares, it will be opportune to mention one or two important features not always observed in the hurry and flurry of the thousand and one details demanding attention at such a busy time. It is very undesirable that the numbering of the shares of two or more classes should each commence from unity: for example, assume a company to be under promotion with, say, seventy thousand preference shares, eighty thousand ordinary shares, and fifty thousand founders' or deferred ordinary shares. In practice, it has been found very useful to adopt a continuous series of numeration for the whole two hundred thousand shares; in this way, the preference shares would be numbered 1 to 70,000, the ordinary 70,001 to 150,000, and the founders' shares 150,001 to 200,000. This system establishes a distinct and irrefutable individuality for the class of share concerned in any after transaction, and is a very good safeguard against the confusion of one class of share with another. Then, again, the actual numbering of the shares against the names of the allottees in the spaces provided for this purpose on the application and allotment list requires consideration. The greatest difficulty and confusion has been known to arise from attempts to number the shares in an allotment list from beginning to end, without any concern for the accuracy of the figures until the end of the long list has been reached. It is most unsatisfactory to proceed in such a way, as the least slip at any stage of the process must necessarily involve inaccurate numbers for all those holdings which follow. The total number of shares allotted to those allottees whose names appear on each page being known, it is a simple matter to agree the numbering of one page before another is proceeded with. Suppose that the twenty-five names appearing on the first page have each an allotment, the whole twenty-five totalling to, say, 20,000 shares; then the closing number against the last name would be 20,000, the closing number of the last allotment on the

second page would be 20,000 plus the whole number of shares appearing as allotments on that page, and so on until the total has been reached.

Allotment Letters do not usually contain the distinctive numbers of the shares, but it is necessary to have the numbering completed very soon after they have been dispatched, as it is frequently found that many shares, especially in a successful issue, change hands very freely on the Stock Exchange almost as soon as the allotment has been made known to successful applicants. Of recent years, a practice has grown up of printing a form of a letter of renunciation on the back of the allotment letter so that an allottee may, during a limited period, dispose of his shares by simple delivery of the allotment letter duly signed in favour of the buyer. A date is named in the allotment letter and all renunciations must be lodged with the company by that date ; after which the share certificates are prepared in the names of the allottee or the nominee, as the case may be. Any subsequent sales must be evidenced by a transfer deed in the usual manner. Following upon this practice comes the task of certifying the transfer deeds, which will be fully dealt with in a subsequent chapter, but, to certify a transfer deed, the distinctive numbers of the shares bargained for require to be known. This necessity is also obvious for the purpose of entering up the share registers.

The amounts due from allottees will, in all probability, be paid direct into the bank, the bank keeping a separate pass book to show the receipt of such payments as they are made by the holders. The Letters of Allotment, as well as the form of receipt to be signed by the bank officials being numbered, this number is entered in the pass book, which will be the sole indication of the identity of the payee. The pass book is obtained from the bank as often as possible, and the payments are entered into their proper places in the allotments list, with the date as it appears in the pass book. A certain date by which payment is to be made, is specified on the face of the allotment letter. As soon as this date has been passed, the list should be run through,

when all vacant spaces, where allotment money is due, should be noted, and all the delinquents communicated with and an early payment requested.

The return of money to allottees (i.e. where the deposit is more than is required at the allotment stage) is made in the form of a warrant, or cheque, payable at the company's bank. The same procedure is also followed when Letters of Regret are sent and the whole of the deposit is refunded. The bank will keep separate accounts for these should they be numerous. The payments by the bank will be noted on the applications list in the column provided, by entering the date of payment, or presentment, of the warrant.

The practice of keeping a separate cash receipts book for the purpose of entering payments of allotment money due at the bank is quite unnecessary, as the column provided for the payments as they are made is devised for this purpose. This column is totalled when all amounts have been collected by the bank and agreed with the balance of Allotments Account as shown by the pass book kept for that purpose. Should any shareholders fail to make their payments within a reasonable time after the prescribed date, allowance must be made for these when agreeing the total, and a special list of the delinquents, with the amounts due from each should be prepared for consideration by the board.

Finally, it must be observed that with a large allotment it is desirable to record on the allotment sheets the progress of the work in connection with the allotment. This may be effected by means of a rubber stamp impression on the sheets, each clerk signing in the space provided.

Sheets written by ....
,, extended by ....
,, checked by ....
Totals checked by ....
Allotment letters written by ....
,, ,, checked by ....

Similar stamps may be used for call sheets, dividend sheets, etc.

Application for Shares where no receipt for the application money is issued. Size 8½ in. by 8¼ in.

IMPERIAL TRUST, LIMITED.

SHARE CAPITAL - - - £

Divided into Shares of £ each.

ISSUE OF SHARES OF

No................

FORM OF APPLICATION.

To the Directors of the

IMPERIAL TRUST, LIMITED.

GENTLEMEN,

Having paid to your Bankers the sum of £................being a deposit of per share on Application for.........Shares of £ each in the above-named Company, I/we hereby request that you will allot to me/us that number of Shares, and I/we hereby agree to accept the same or any less number that you may allot to me/us upon the terms and conditions of the Prospectus (dated..........) and Memorandum and Articles of Association of the Company, and I/we authorise you to place my/our name(s) on the Register of Members in respect of the Shares allotted to me/us.

To be written distinctly.

Name (*in full*)..

Address (*in full*)..

....

Profession or Business ....
(A lady should state whether she is a Spinster, Wife, or Widow.)

(*Date*)..............19.. (*Signature*)..............................

This Form, when duly filled up as directed above, should be sent, with the necessary remittance, to the Company's Bankers, the

Bank of London, Limited, 83, Lombard Street, London, E.C.3

Cheques should be made payable to BEARER and crossed NOT NEGOTIABLE.

If altered from " Order " to " Bearer " the alteration should be signed by the Drawer.

The Company will forward an acknowledgment in due course, either by Allotment Letter or by return of the Deposit.

D Allotment Letter with one receipt, size 13 in. by 8½ in., the docket at the foot being exactly a quarter of the whole form.

ALLOTMENT LETTER.

6*d.*
Stamp.

No.............

Space for Name and Address of Allottee, to be filled in by the Company.

IMPERIAL TRUST, LIMITED,
983, CORNHILL,
LONDON, E.C.3
......................., 19...

ISSUE OF SHARES OF

SIR OR MADAM,

In response to your application, you have been allotted ——— Shares of £ each / £ Stock *or Bonds* of the IMPERIAL TRUST, LIMITED.

The Amount payable on Application and Allotment (viz.,—— per share) / per cent. is £

You have already paid . . . .

Making amount **due from** you on Allotment. . . . . . £

or

Making amount **due to** you, for which a cheque is enclosed . . . £

Payment of the amount due from you should be made on or before as directed below.

(Further particulars with regard to this Issue can be inserted here as required.)

By Order of the Board,

Secretary.

This Form, with remittance, must be forwarded **entire** to the Company's Bankers, the **Bank of London, Limited, 83, Lombard Street, London, E.C.3** who will return it duly receipted. It should then be carefully preserved to be exchanged for the relative Certificate (*or Scrip*) in due course. Notice of such exchange will be given by the Company (by advertisement).

Cheques should be made payable to BEARER and crossed "NOT NEGOTIABLE."

If altered from " Order " to " Bearer " the alteration should be signed by the Drawer.

RECEIVED for account of the IMPERIAL TRUST, LIMITED, the amount due on Allotment.

For **BANK OF LONDON, LIMITED,**

....
Cashier.

Date.....................19..

....

ALLOTMENT. *No*............

IMPERIAL TRUST, LIMITED.

£ - - .

....

Date.....................19..

CHAPTER V

CALLS ON SHARES

It is stated in the foregoing chapter that in cases where more than one instalment is due on shares after the allotment stage, it is found more convenient in practice to prepare special books for the purpose of recording the calls due and amounts as paid on the shares. Most practitioners, indeed, strongly condemn the method of incorporating the call list with that designed for the subscription or application lists, even in instances when only one call is due on the shares after allotment. Doubtless this method has much in its favour, more particularly so in those companies whose shares are no sooner allotted than a ready market is found for them: sometimes even before the securities have been definitely accepted for inclusion on the official lists of the Stock Exchange. Shares allotted to stock brokers and jobbers change hands almost immediately on receipt of the allotment letter. It is obvious that in such cases the presence on the applications and allotments list of even one call against each name would be very inconvenient indeed, insomuch that the amount of the deposit and allotment instalments would have to be posted to the account in the share ledger of the allottee, and the amount due on the call instalment to the account of the transferee who acquired the shares after allotment. On account of these difficulties, the old practice of having application, allotment, one, two, or three calls upon one huge sheet has fallen into almost universal disuse. It is sometimes found more convenient to prepare entirely separate call lists for each of the instalments due on the shares after allotment, even in cases when only a month elapses between the date of any two calls. This, however, should only be necessary when it is thought probable that a very considerable demand for the shares is likely to arise, in which case a frequent change of hands would ensue.

It has been thought desirable to deal with the subject of calls immediately following the chapter on Allotment Lists, the two being, in a measure, analogous. The preparation of call notices and lists would not occur until the Members' Register and Share Ledgers have been written up and completed from the allotment list ; call lists or books being written up from the members' share accounts in the registers.

As compared with the case of Application and Allotment Lists, the preparation of a call list, or as it is more frequently termed, a Call Register, is a comparatively simple matter. In the former case the amount of accommodation required is entirely a matter of conjecture, it being impossible to foresee the extent of the applications which a Prospectus may gather in. For that reason the application list is usually prepared on loose sheets and left unbound or kept in sections in loose-leaf binding covers until the business connected with the allotment has been definitely disposed of. As to calls, the case is entirely different, but with a large shareholding, it is a convenient practice for the call sheets to be dealt with in sections on the loose-leaf principle so that several clerks can work simultaneously on the preparation of the lists, call letters, etc. For small companies, however, bound books may be used. The numbr of calls is known within reasonable limits, so that the size of the Call Registers may be decided upon as soon as may be necessary after the allotments have been made and announced. The general principles to be observed in constructing a suitable register require that provision should be made for the following records—

(1) Number of the notice, i.e. the consecutive numbers of the call notices.

(2) The No. of the Register and folio of the member's account therein.

(3) A column each for the name (divided into two sections for surname and Christian name), address, and description of the member.

(4) The number of shares held ; the distinctive numbers in this case are not used.

(5) The amount payable in respect of the shares.

(6) The amount paid. This column is very useful, as many shareholders have a desire to pay more than is actually demanded for the call in question, and pay subsequent calls before they are made.

(7) Date when call is paid.

Columns 5, 6, and 7 are sometimes repeated for the purpose of recording the entry of a further call or calls. If the market for the shares should be slack, this is the best form to adopt, provided that the interval between the calls is not more than a month. On the other hand, where a considerable amount of bargaining in the shares is evident, it is much the better plan to construct the Call Register with the columns as described above, leaving subsequent calls to another register to be compiled in a similar manner.

An ample remarks column is indispensable, as recommended for the allotments list. Entries in this space, such as transfers, instructions to make further communications to banks or an attorney, will be frequent, and numerous complicated cases which require careful annotation generally present themselves. The shares upon which a call has been made may, in the meantime, have been wholly or only partly disposed of. In the former instance, the name of the person upon whom the liability of the call devolves will be entered, or, where a part has been sold, the number of the shares disposed of must be shown and the name of the person or persons given. This latter situation is frequently exceedingly difficult, on account of the fact that share dealers who sometimes receive a generous allotment dispose of their holdings in a number of small quantities. The allottee is directly liable for the call until the transfer of the shares is registered, and after the call has been made, transfers of the shares should not be accepted unless the call receipt is produced as evidence of payment. Nevertheless, it is not uncommonly found that the transferees are allowed severally to discharge the call. Should such an instance occur, and there is not sufficient space in which to enter the different payments, it is as well

to transfer the whole entry to the end of the register, where space should be found to give the required information in full.

It is important that the amount of the call per share should appear at the head of the column provided for the purpose on each page of the register. When entering the items, which should be done from the Share Ledgers direct (as these will have been previously prepared and balanced to agree with the total amount of shares issued, or allotted), the surnames and initials of the members must be entered (it is unnecessary to give full Christian names in such instances), their addresses, the folio of the Share Register, and number of shares standing to each member's name (*see* Register on page 66). The description of members need be observed only in cases where a special title, such as knight, colonel, is used ; or, where lady members occur, their status, Mrs. or Miss. All the details appearing in the Members' Register or Share Ledger need only be observed. Where it is obviously necessary to denote such cases as have been mentioned, it must be borne in mind that the Call Register is really on a par with an ordinary day book, and is used chiefly for the purpose of recording the specific amounts due from the members severally. At the same time, it offers a ready and convenient means of exhibiting the payments of those who have satisfied their obligations. The column used for the number of the call notice will be filled in as the notices are prepared. The cash column in which payments of the calls are to appear will be entered from a special subsidiary Cash Book, similar to that used for recording payments on allotment; the daily totals of which will be entered into the General Cash Book as described in another chapter.

The pages of the Call Register will be totalled and agreed, as to calls due, with the total call made by the directors, thus safeguarding the possibility of error in omitting the entry of any name or names from the list. When all payments have been received, the other column will be agreed, or, should there be amounts unpaid, such items as may be

outstanding will be prepared as a separate list at the end of the original list, and added to the amounts received. If the Bank Pass Book, showing the several payments for the calls as they are received from the members, is checked with the Call Register, this will effectually check the accuracy of the entries in the Register, and also the Cash Book, from which they were made.

The manner of making a call will depend upon the conditions of the issue under which the share capital has been subscribed. The more usual practice is to announce by means of the Prospectus inviting the subscriptions, that the calls will be made for certain amounts per share at specified dates after allotment; or the making of a call may be made at such a time as the directors may appoint, if they have power to do so by the company's Articles of Association. It is sometimes necessary to obtain the consent of the members in general meeting by means of a resolution, to sanction such a proceeding. Banking and Insurance Companies commonly issue shares upon which only a comparatively small amount of the nominal liability is to be paid up immediately, the balance being allowed to stand until such a time as the concern may desire to make use of the uncalled capital. The fact that a company has this uncalled capital which it can call up at any time gives added strength to the concern, and gives increased confidence to those with whom it does business. With the majority of companies, however, it is usually found that, as compared with this practice, a portion of the authorised capital is left unissued, whilst the whole of the capital offered for subscription is to be paid up at definite and specified periods, the unissued capital being retained for use as occasion may require.

Although the dates when calls will fall due have been fully set out in the Prospectus, full regard must be had to the company's regulations as to the necessary points to be observed. Though the Prospectus will have been so framed as to avoid any breach of these regulations as regards the amount of any call, or the time which must elapse between

CALL REGISTER

No. of Call Notice.	No. of Share Register and folio.	Members. Name.	Members. Address.	Members. Description.	No. of Shares.	Amount of Call due at 5s. per share. £	s.	d.	Date of Payment.		Amount Paid. £	s.	d.	Remarks.
				carried	for'd.	£5195	15	0	19..		£5120	5	0	
345	2/148	Sturgess, B. A.	Maiden Lane, Hounslow.	Colonel C.M.G.	200	50	0	0	July	1	50	0	0	
346	,,	Chaplin, J.	2 Capel Court, E.C.2.	Stockbroker	50	12	10	0	,,	3	12	10	0	
347	2/149	Burgess, J. W.	Heron Court, Hunstanton.	J.P.	100	25	0	0	,,	5	50	0	0	Paid First and Final call
348	,,	Stanton, I. M.	5 Bakewell Place, Colchester.	Miss	20	5	0	0	,,	2	5	0	0	
349	2/150	Hurd, B. H.	Conkwell, Sidmouth.	Gentleman	200	50	0	0	,,	1	50	0	0	
350	,,	Pitcher, E. O.	959 Park Lane, W.1.	Mrs.	1000	250	0	0	,,	12	250	0	0	
351	2/151	Aplin, T.	4 The Parade, Tunbridge Wells.	Captain	50	12	10	0	,,	10	12	10	0	

THE TIMBUCTOO COFFEE PLANTATIONS, LIMITED

ISSUE OF 50,000 ORDINARY SHARES OF £1 EACH

NOTICE OF SECOND AND FINAL CALL OF 5S. PER SHARE

MAKING THE SHARES FULLY PAID

C2
345

19 Mincing Lane, E.C.3.
June 28th, 19..

Sir (or Madam),

I have to give you notice that in pursuance of the terms of the prospectus dated April 18th, 19.., the final instalment of 5s. per share becomes due and payable by you within fourteen days from the above date.

The amount due on the 200 Ordinary Shares standing in your name is £50 0s. 0d.

I shall be obliged by your paying this amount on or before the 12th July, 19.., to the Cosmopolitan Bank, Ltd., 300 Lombard Street, London. Please forward to them this notice and receipt form entire with your remittance. The receipt when returned must be preserved by you to be exchanged in due course for the share certificate

I am,
Your obedient servant,
A. B. CURSANDT,
Secretary.

To COLONEL B. A. STURGESS, C.M.G.,
Maiden Lane,
Hounslow.

Cheques should be made payable to BEARER and crossed *Not Negotiable*. If altered from Order to Bearer, the alteration should be signed by the Drawer.

THE TIMBUCTOO COFFEE PLANTATIONS, LIMITED

C2
345

BANKER'S RECEIPT FOR PAYMENT OF FINAL CALL OF 5S. PER SHARE (ORDINARY)

......19..

Received of Colonel B. A. Sturgess, C.M.G., the sum of fifty pounds ——— shillings for the amount due on 200 Ordinary Shares in the above Company.

per pro. THE COSMOPOLITAN BANK, LTD.

£50 : 0 : 0

2d. Stamp.
G. A. BROWN,
Cashier.

N.B.—This receipt must be carefully preserved to be exchanged for certificate.

the making of different calls, it must nevertheless be observed that members are entitled to reasonable notice, usually fourteen or twenty-one days, that such an instalment is due, and, further, to make the call effective the call notice must state the amount called and when and where and to whom it is to be paid.

A call is made by the board and a resolution must be passed at a meeting properly convened and held for the purpose, and the full particulars of the proceedings entered in the proper manner in their Minute Book. If the call is made in pursuance of the conditions contained in the Prospectus, this fact should be embodied in the resolution, but as regards the notice of call, it is only necessary to state that the instalment becomes due as set out in the Prospectus of such and such a date.

CHAPTER VI

REGISTER OF MEMBERS AND SHARE LEDGER

THE foregoing chapters have dealt with the various stages of the issue of share capital, and the means to be adopted to secure the adequate records required to account for the different stages of instalments through application and allotment, and the subsequent calls to complete the amounts due upon the shares, have been described. The consideration of the share registers has been purposely deferred until these several stages have been dealt with. The registers must, nevertheless, be prepared as soon as possible after the allotment has been completed. As a matter of fact, the law requires this task to be performed at the moment of making the allotment; in practice this legal requirement is of necessity not regarded in a literal sense. Indeed, it would be impossible, in the majority of cases, to carry out such an undertaking. The share registers must, however, be got under way with the utmost dispatch, not only to carry the demands of the law into effect, but to serve as a most useful and indispensable adjunct to the company's records at this busy period. The registers will form the first means of classifying the different members' accounts with full particulars relating to each, and, where perhaps many thousands of shareholders are concerned, will, with the form of general index and auxiliary share register which will be fully described at the end of this chapter, constitute a means of almost instant reference to any given account.

Immediately after the completion of the allotment, when the number of accounts will be known, the form of ruling having been previously decided, the necessary number of books for use should be ordered and obtained without the least delay, as well as the general index and auxiliary register which must form a separate book or books according to the

number of members. It is customary for the share register to be combined with the share ledger, and thus considerable saving of clerical labour is effected. It will be obvious that in cases where a number of share ledgers are required it will be somewhat inconvenient to provide each ledger with its relative index. A general index will, therefore, be brought into use which will refer to each of the ledgers, whether for preference, ordinary, or, say, founders' shares, and may at the same time give reference to the registers containing the holdings arising from a debenture issue. Though share capital and debenture issues have not the remotest relationship, it is of the greatest convenience to be in a position to ascertain almost instantly the precise holdings of both classes of security pertaining to any person.

The Members Registers or Share Ledgers, by whichever term they are alluded to, are, apart from the general books of account, the most important records which come under the charge of the company's officials. They are required to be kept by section 25 of the Companies (Consolidation) Act, 1908. The Act does not prescribe any particular form; it merely makes the provision that a list of members must be kept, giving their names, addresses, and descriptions, the number and class of share, distinctive numbers, with the amounts paid up on each, the date of entry as members, and the dates of ceasing to be members. The form of register commonly in use which has been found to satisfy all requirements is shown on pages 66 and 67. It assumes the form of any ordinary ledger as used for commercial purposes, but is of a somewhat more complicated and extended character. To satisfy the requirements of the legislature, the mere list of allotments would suffice, but to serve the purposes of company administration this would fall very short of the mark.

The accounts in the register are first entered up from the list of allotments, usually in the order in which they appear in that list. The date of entry must not be the date of allotment, but that on which the entry is made. This is an

NORTH, EDWARD J. THE DRIVE, CLAVERTON,

SHARES DISPOSED OF. CASH

Transfer Deed No.	Date of Entry.	No. of Shares.	Distinctive Nos. of Shares (inclusive).		Amount Paid up on Shares.			Amounts due					
			From	To				Date.	Instalment.	Fol.	Amount.		
								19..					
								April 1	Application and Allotment	5	£50	0	0
								June 10	First Call	19	25	0	0
								July 10	Second Call	30	25	0	0
											100	0	0

\

BARRATT SAMUEL A. 9 DENZIL AVENUE,

SHARES DISPOSED OF. CASH

Transfer Deed No.	Date of Entry.	No. of Shares.	Distinctive Nos. of Shares (inclusive).		Amount Paid up on Shares.			Amounts due.					
			From	To				Date.	Instalment.	Fol.	Amount.		
								19..					
									Application and Allotment	3	12	10	0
								June 10	First Call	7	6	5	0
								July 10	Second Call	12	6	5	0
											25	0	0

EDS.

CCOUNT.

SHARES ACQUIRED.

Amounts paid.			Date of	No. of Allotment Letter or Trans. deed.	No. of Shares.	Folio of Register.	Distinctive Nos. (inclusive).		Amount paid up.			No. of Certificate.
Date of Payment.	CB. Folio.	Amount.					From.	To.				
pril 1		£25 0 0	May 15	A 1	100		1	100	£100	0	0	1
„ 20	50	25 0 0										
ıly 18	176	50 0 0										
		100 0 0										

IESTER. CIVIL SERVANT.

CCOUNT.

SHARES ACQUIRED.

Amounts paid.			Date of Entry.	No. of Allotment Letter or Trans. deed.	No. of Shares.	Folio of Register.	Distinctive Nos. (inclusive).		Amount paid up			Certificate Nos.
Date of Payment.	CB. Folio.	Amount.					From	To.				
9..			19..									
pril 1		£12 10 0	May 15	A2	25		101	125	£25	0	0	2
ıly 1	153	6 5 0										
, 25	195	6 5 0										
		25 0 0										

important point, inasmuch as the law does not recognise a person as a member until such time as that member's name appears on the company's official list; i.e. the members' register or share ledger, though it is quite probable the powers that be would regard the allotment list as the official list where the preparation of the share ledger is unduly delayed. The number of the allotment letter, number and distinctive numbers of the shares and the amount payable on application and allotment complete the initial entry. The member's name, address, and description should be given as fully as possible, but in this instance it is sufficient if an unmistakable identity has been established. Though each entry must be irrefutable there is no need for the belaboured descriptions of titles, nor for more than one Christian name to be given in full.

The arrangements for accommodating the requisite number of share accounts in the share registers will be known on the completion of the allotment list. Separate registers will have to be provided for each class of shares. Few companies are now floated where one class of shares only is mentioned on the Prospectus; generally two, and sometimes even three and four classes are created. It is important that adequate space be allowed for those accounts wherein it is necessary to record the payment of the different instalments. A certain number must be allowed for, over and above those which figure on the allotment list, as it must be borne in mind that a considerable percentage of the allotments will be made to speculators who, immediately upon receiving notice of allotment, will dispose of their shares, the individuals taking up the shares becoming liable for any calls which may subsequently be made. Thus the account of the allottee may be closed, in which case the recording entries as to amounts due on calls will be made in the accounts opened in the names of transferees. In all such cases the deeds of transfer, or the contracts under which the property in the shares passes from one to the other, will contain information to the effect that the shares

Name, HARROWBY, JOHN, W.

Address, The Lindens,
Harrow.

Description, J.P.
Retired Civil Servant.

CUMULATIVE PREFERENCE SHARES OF £1 EACH FULLY PAID

SHARES TRANSFERRED.					BALANCES.		SHARES ACQUIRED.					CERTIFICATE.
Date.	Folio of Transfer Register.	Distinctive Nos. (inclusive)		No. of Shares.	Date.	No. of Shares.	Date.	Folio of Transfer Register.	Distinctive Nos. (inclusive).		No. of Shares.	No.
		From.	To.						From.	To.		
19..					19..		19..					
Nov. 10	58	19341 8626	19375 8640	50	Dec. 31	100	Sept. 3	19	19341	19375	35	1385
							,, 11	28	8626	8640	15	1496
							,, 12	36	75801	75900	100	1563

so bargained for are disposed of at so much per share paid up, which information must be recorded in the transfer register which we shall describe hereafter.

When all calls have been paid, another and much simpler form of share register may be brought into use, as it is obvious the large amount of space occupied for debiting and crediting the amounts due and paid on the shares respectively is then quite unnecessary. The number of registers to be provided will naturally depend upon the amount of business being done. It is often found, even in instances where the capital of a company is comparatively modest, but where its prosperity is well established, that there is a very quick market for the shares, with the consequence that they change hands with astonishing rapidity, taxing the resources of the registrar's department to the utmost. This is generally the case, too, with new issues which have met with a successful response on the part of the investing public

In practically all companies whose shares have obtained the official Stock Exchange quotation (many thousands of which concerns already exist), the majority have multitudes of shareholders. With such companies a considerable amount of organisation is called for with a view to ready and immediate reference to each shareholder's account. The instances we have given of the different share ledgers to be brought into use would not be expected to contain more than a few hundred accounts. Many of them will be closed in course of time, as allottees dispose of their original holdings. The system of auxiliary alphabetical registers of members, to which we have previously alluded will, when share ledgers are multiplied, be an absolute necessity. These auxiliary registers provide, in short, a convenient general index to a whole system of share ledgers, embracing, perhaps, a series of ledgers for each class of shares, and maybe, for debenture holdings as well. They provide the means of ascertaining readily the holdings of any given member, the precise position of his account in preference, ordinary, or debenture registers, and, with a very little extra labour, the amount of his holding

of each class, this last information being entered in pencil to be altered as may be necessary from time to time. The absence of such a system would mean that to obtain the individual holdings of a given shareholder who may be holding shares of more than one class, one would be compelled to search through, say, the indexes of half a dozen registers. This tedious process would be necessary in posting up every debit and credit entry from the register of transfers, and would from that fact alone cause more than double the work involved in the system here advocated.

Such a system of auxiliary registers or general indexes for the share ledgers is best arranged in the form of an ordinary address book, contrived on the vowel indexing plan, or by adopting a card index system. In the latter case, as soon as a person ceases to be a member the card representing his holding is removed. There is an objection to the use of cards, as a series of drawers containing them is not sufficiently portable to be used at general meetings when those functions are conducted away from the company's registered offices, which is most usual. If the number of members is very numerous, it will be as well to divide the whole into say, four books or drawers, as the case may be, the first to take the members from A to F, the second from G to K, the third from L to R, the fourth and last from S to Z, each letter being subdivided into six sections, a, e, i, o, u, and y. This subdivision is very useful, as different books may be brought into use at the same time when two or more persons are occupied on the task of entering transfer deeds, compiling dividend lists, or annual returns of members.

The information contained in the general indexes must be as full as possible in order to establish a complete list of the members, but it is unnecessary to give more information than is required to serve as a general list of members and their holdings, and thus provide a register in the most convenient form to be used at shareholders' meetings, and to form a basis for the preparation of the annual return of members in such a form as would reflect a certain amount

GENERAL ALPHABETICAL REGISTER OF MEMBERS AND DEBENTURE HOLDERS AND THEIR HOLDINGS
PAGE OF BA "A" SECTION

Names.	Addresses.	Descriptions.	Registers and Balances.						Date of ceasing to be a member.
			Preference Register and folio.	Shares held.	Ordinary Register and folio.	Shares held.	Debenture Stock Register.	Stock held.	
Ballard, M.	*Harroween, Derby Road, Walthamstow E.17.*	*Miss*	2/191	45					
Ballantyne, J. H.	2 *Capel Court, E.C.2.*				3/109	1000			
Blacka, J. E. W.	2 *High Street, Putney, S.W.15.*	*Captain*	1/104	100	2/195	50	57	1000	
Bardane, H.	1 *Throgmorton Ave., E.C.2.*								July 10 19..
Bannatyne, C. O.	5 *Bannisters Court, Poultry, E.C.1.*				1/38	500			
Blackhall, M. J.	5 *Chepstow Villas, Monmouth.*	*Mrs.*	2/11	25					

of credit upon the registrar's department of the company concerned. We say this, as it is too frequently found that lists as filed at Somerset House invariably omit any pretence to order or classification of members. A member's name may appear in one part of the return for one class of shares and elsewhere for another class, whilst alphabetical order is in the vast majority of cases, entirely ignored. It is true our legislators have not made this requirement a part of the statutes, but it must be obvious that where a list is filed in the most convenient form it is better for all concerned.

As these index books will be expected to withstand a very considerable amount of use, it should be borne in mind that the bindings should be of the strongest. Indeed they will be handled a good deal more than the registers to which they act as guides. If we assume the books to be required for the names embraced within the limits of A to F, and so on, as before described, the simplest and most convenient mode of constructing them is to allot a sufficient number of pages for each of the letters, each section being divided by a page of extra thick paper edged on the right-hand side with leather from top to bottom, and projecting about half an inch beyond the other pages. This section is again divided into six sections, representing the first vowels. The vowel sections are further marked by a similar number of sections for the second vowel occurring in a given member's name. Thus a shareholder of the name of Allardice would be entered in "A" division, section "a," for the first vowel, and subsection "i," for the second vowel. The name Motherwell would be placed in "M" division, section "o," subsection "e," and so on. A name with but one vowel would be allotted to that section in which the vowel appears, e.g. Epps would be entered in "E," section "e" and subsection "e." The index cuttings to appear in each of the four letters A-D are given on the next page, but of course they may be modified to suit the requirements of any given instance.

There is another, and almost equally good method in use

whereby the whole of the names are entered in that section under which they would be placed for the first vowel. This is effected by allowing a much wider space in the column

A		B		C		D	
a	a	a	a	a	a	a	a
a	e	a	e	a	e	a	e
a	i	a	i	a	i	a	i
a	o	a	o	a	o	a	o
a	u	a	u	a	u	a	u
a	y	a	y	a	y	a	y
e	a	e	a	e	a	e	a
e	e	e	e	e	e	e	e
e	i	e	i	e	i	e	i
e	o	e	o	e	o	e	o
e	u	e	u	e	u	e	u
e	y	e	y	e	y	e	y
i	a	i	a	i	a	i	a
i	e	i	e	i	e	i	e
i	i	i	i	i	i	i	i
i	o	i	o	i	o	i	o
i	u	i	u	i	u	i	u
i	y	i	y	i	y	i	y
o	a	o	a	o	a	o	a
o	e	o	e	o	e	o	e
o	i	o	i	o	i	o	i
o	o	o	o	o	o	o	o
o	u	o	u	o	u	o	u
o	y	o	y	o	y	o	y
u	a	u	a	u	a	u	a
u	e	u	e	u	e	u	e
u	i	u	i	u	i	u	i
u	o	u	o	u	o	u	o
u	u	u	u	u	u	u	u
u	y	u	y	u	y	u	y
y	a	y	a	y	a	y	a
y	e	y	e	y	e	y	e
y	i	y	i	y	i	y	i
y	o	y	o	y	o	y	o
y	u	y	u	y	u	y	u
y	y	y	y	y	y	y	y

containing the members' names. Taking the form of the general index to the registers, on page 72, this latter plan is carried out in the following way, the names column being

simply divided by six blue vertical lines, allowing about an inch between each section " Ba "—

a.	e.	i.	o.	u.	y.	
Ballard						*Miss M.*
					Banty	*H. O.*
			Bantor			*W. H.*
	Baness					*C. H.*
					Bayliss	*Mrs. C.*
Bannatyne						*R. F.*
		Battridge				*W.*
	Bance					*Col. W.*
			Ballor			*Rev. J.*
Barratt						*O.*

Other systems of indexing are practised, but for large companies, or those of moderate size, the method here advocated and known as the double vowel system has been found to offer the greatest facility in manipulating all kinds of work concerning the registers. Space prohibits the consideration of any other method within the compass of this treatise, but the question demands the closest attention.

The entries into the Share Ledgers and the corresponding entries to the general indexes should be carried out simultaneously, or, to be more precise, as nearly so as possible. As previously noted, the allotment sheets will be best kept temporarily bound in sections on the loose-leaf principle until the whole of the entries of the completed allotments have been made. A sheet will be first entered to the share ledger or ledgers of whichever class of shares with which it deals. It will then be passed on to another clerk who will have charge of the whole set of the general indexes. The allotment sheet will contain all the information it is desired to index without reference to the share ledgers, the work upon both proceeding without interruption. The utmost care must be observed in dealing with the index to see that the name of an individual does not appear more than once. It is the principal object of this book to locate at one point the sole holdings of any given member. A sharp look out must be kept to guard against dual entries arising from the same person holding more than one class of shares, or, as sometimes

happens, from the fact that a shareholder may make more than one application for one class of share, and receive an allotment on each. It may be possible to place these two applications side by side in the applications and allotments list, but should it be overlooked, and the allotments go through in each case, there is a danger that two accounts may be opened in the ledgers for one person ; a practice to be guarded against.

Before leaving the subject of the members and share registers, it is as well to mention one or two important statutory requirements which all companies have to observe. The law prescribes no specific form in which companies are required to keep the list of members or their accounts of members' holdings. The forms given are those which have been evolved out of long experience and are such as satisfy the exigencies of the situation. Whatever form these important books take they are required to be open to the inspection of members for at least two hours of every ordinary business day without charge, and to the public on a payment of one shilling. If the share registers have not been prepared or completed, any person may be allowed to inspect the list of allotments upon satisfying the conditions above mentioned as to payment of a fee where the applicant who wishes to inspect is not a member. Another provision requires that any person, upon payment of a sum not exceeding sixpence per hundred words, may be entitled, within a reasonable time, to a copy of the whole list of members. This privilege is largely indulged in by circular-addressing agencies, who obtain lists of the investing public. A deposit representing the approximate amount which may be charged by way of the fee, above named, should be demanded before the list is undertaken. A refusal to grant this privilege renders the company, but not its officials, liable to a penalty of two pounds per diem.

For small companies formed for private purposes, the elaborate and costly systems we have here described are quite unnecessary ; in their case the law stationers stock very useful books, containing allotment lists, share ledgers,

index, directors' list, and transfer register, in the compass of one compact volume, an arrangement eminently suitable to such cases. From the information given in this chapter as to the keeping of share ledgers, the necessary instructions for the opening up and maintenance may be easily deduced.

CHAPTER VII

TRANSFER REGISTERS

WHEN the allotment list has been completed and entered into the share registers, the book ranking next in importance within the group of accounts dealing with the share or registrar's department, is the register of transfers. It is highly probable, for reasons which we have before mentioned, that this register will be brought into use comparatively early in the new company's career. Frequently we find transfers being left at the company's office for registration within a few days of the dispatch of allotment letters: even on the following day. As these deeds should be entered as they are received, the register must be prepared in readiness to meet this demand.

A register of transfers is practically tantamount to a journal such as would be used in ordinary book-keeping, but the book is drawn up on a much more elaborate scale. Indeed, it has been termed a "tabular journal," but this appellation is, however, a little wide of the mark. Nevertheless, by an inspection of the ruling it will readily be seen that the records therein partake of the nature of tabular records, the information being preserved in regular and convenient classification. Its sole function is to contain the whole of the necessary details contained in the transfer deeds, arranged in such a manner as to serve as a book of entry into the members' share accounts. It shows, on the one hand, the number of shares disposed of, and on the other, the same shares as acquired by the transferee.

In all large companies, separate share registers should be employed for each class of share, each book being bound in a colour to accord with the share ledgers containing the accounts of shares of the same class. An alternative method is to have a loose-leaf transfer register with sheets of different colours for each class of share. With small companies, in

which the receipt of a transfer deed is a comparatively rare occurrence, one register will, of course, suffice; and in instances where the whole of the share transactions repose in the convenient dimensions of one binding, the practice of entering preference shares in red ink and ordinary in black has much to commend it, as this affords a ready distinction. A consideration of the following form will give sufficient detail of the whole features to enable the reader to adapt the form to almost any variation—

Column 1 provides space for the number of the deed of transfer, the deeds being numbered consecutively as they are received. In large offices where the transfers are numerous, this numbering is best carried out by means of one of the well-known hand numerators; further, the numbering should be carried out systematically, i.e. the numbers ought to appear in one uniform place on the deed, usually in the top right-hand corner.

Column 2. Date of lodgment.

Column 3. (i) Transferor's name.
(ii) ,, address (brief).

Column 4. Folio of transferor's share account.

Column 5. Particulars of shares covered by the deed.
(i) Number.
(ii) Distinctive numbers (inclusive).
(iii) Nominal value of the shares, or, if not fully paid, the amount paid on all.

Column 6. Number of old certificate lodged with the deed.

Column 7. Amount of the consideration received by the transferor.

Column 8. (i) Transferee's name in full.
(ii) Full address.
(iii) Description or occupation. Particular attention must be paid in this respect with regard to female transferees, especially if the shares are not fully paid; a married woman must give the name, address and description of her husband.

REGISTER OF TRANSFERS (For One Class of Shares)

No. of Transfer Deed.	Date when lodged.	Transferor.		Number and folio of Share Ledger.	Shares.				No. of Certificate to be cancelled.	Consideration.
		Name.	Address.		Number.	Distinctive numbers, inclusive.		Amount.		
						From.	To.			
	19..									
69	*Nov.* 7	*Harrowby, J. W.*	*Harrow*	2/190	50	{19341 8626	19375 8640}	£50 0 0	{1385 1496}	£57 10 0
70	,, ,,	*Chambers, H.*	182 *Fleet Street, E.C.*4	1/131	25	31851	31875	25 0 0	383	28 15 0
(1)	(2)	(3-i)	(3-ii)	(4)	(5)	(5-ii)		(5-iii)	(6)	(7)

REGISTER OF TRANSFERS—(contd.)

Transferee.				Number and folio of Share Ledger.	New Certificates.		Board Meeting Notes.			Remarks.
Name.		Address.	Description.		To Trnsfers.	For Balance.	Date of Meeting.	No. of Minute.	Chairman's initials.	
Hacker,	*Silas W.*	5 *Benwell Grove, Chertsey*	*Grocer*	3/12	1496	—	19... Dec. 18	138	*J. W. H.*	
Binns,	*J. Henry*	3 *Capel Court E.C.*2	*Broker*	3/13	1497	1498	,, ,,	,,	*J. W. H.*	*Hold Balance Certificate*
(8-i)	(8-ii)	(8-iii)	(8-iv)	(9)	(10-i)	(10-ii)	(11-i)	(11-ii)	(11-iii)	(12)

COMMON FORM OF TRANSFER

I
We

of

in consideration of the Sum of

[See Note.]

paid by

of

hereinafter called the said Transferee ,

Do hereby bargain, sell, assign, and transfer to the said Transferee—

of and in the undertaking called

To Hold unto the said Transferee , Executors, Administrators, and Assigns, subject to the several conditions on which held the same immediately before the execution hereof; and the said Transferee , do hereby agree to accept and take the said , subject to the conditions aforesaid.

As Witness our Hands and Seals, this Day of in the Year of our Lord One Thousand Nine Hundred and

Signed sealed, and delivered, by the above-named
in the Presence of
*Witness's Signature,
Address,
Occupation,

SEAL

Signed, sealed, and delivered, by the above-named
in the Presence of
*Witness's Signature,
Address,
Occupation,

SEAL

Signed, sealed, and delivered, by the above-named
in the Presence of
*Witness's Signature,
Address,
Occupation,

SEAL

Signed, sealed, and delivered, by the above-named
in the Presence of
*Witness's Signature,
Address,
Occupation,

SEAL

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer; the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question:

"Where a Person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser." [Stamp Act, 1891, Section 58 (4).]

* *When a Transfer is executed out of Great Britain it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a public position—as most Companies refuse to recognise Signatures not so attested.*

Column 9. Folio of transferee's share account.
Column 10. (i) Number of new certificate to transferee.
(ii) Number of new certificate for balance to transferor.
Column 11. Particulars as to passing of the deed by the Board.
(i) Date of meeting.
(ii) Number of minute.
(iii) Initials of chairman.
Column 12. Remarks.

In larger companies, the transaction of business dealing with share transfers is commonly relegated to a sub-committee of the Board, who report in detail to the principal executive on all their transactions, in the abstract form. These reports are to receive the formal confirmation of the board.

As transfer deeds are received, they are to be entered in rotation and numbered, after being carefully examined as to stamp duty, and the number and distinctive numbers of the shares they cover compared with the transferor's share certificate returned to be cancelled. It is most important that these certificates be immediately stamped with a special cancellation stamp across the signatures of the directors and the secretary. It is almost equally important to observe that the requisite amount of duty has been impressed on the deed. The scale of duty is as follows—

Where the *consideration*, i.e. purchase price, does not exceed £5	1s
For every succeeding £5 or a fraction thereof up to £25 ..	1s.
For every £25 or fraction of £25 up to and not exceeding £300	5s.
Above £300 the duty is at the rate of 10s. for every £50 or fraction thereof.	

It must be borne in mind that this duty is liable to alteration with the presentation of each year's budget, though the present scale has obtained now for a number of years without interruption. The duty is required to be paid within thirty days of the signing of the contract. If later, the instrument is void and must be returned to the broker, who is by custom

of the Stock Exchange held responsible for the stamping of deeds, though the real onus lies at the door of the company secretary, who is personally and solely liable to a penalty of ten pounds where the requisite amount of stamp duty has not been paid. Thus, neglect in this direction may lead to serious consequences. If no monetary consideration is mentioned in the deed, the stamp duty payable is the *ad valorem* duty on the market value of the shares, and an adjudication stamp should be obtained from the Commissioners of Inland Revenue at Somerset House: as, for instance, shares passing by deed of gift, or in consideration of services rendered.

A summarised statement showing particulars of the transfers and share certificates to be passed at Board meetings should be prepared and presented to the directors. This statement should include a reconciliation showing the total number of shares represented by cancelled certificates, from which is deducted the number of shares on outstanding certifications not yet lodged for transfers, the balance equalling the total number of shares on the certificates to be signed and sealed by the directors.

(NAME OF COMPANY)

SUMMARY OF TRANSFERS AND SHARE CERTIFICATES passed at Board Meeting held on the........day of........................19..

	SHARES.	TOTAL SHARES.
Transfers Nos.........to........inclusive, representing . . .		....
New Certificates issued—		
As per Transfers :		
Nos.........to........inclusive, representing . . .	....	
Balance Certificates issued—		
Nos. B........to B........inclusive, representing .	....	
Total . .	....	
Add Split Certificates (Nos.........to........inclusive), representing	....	
,, Duplicate Certificate(s) Nos..... in lieu of Nos.............................. } representing	....	
Total New Certificates . .	....	

Note.—Certificate No.................spoiled.

	SHARES.
Certifications on cancelled Certificates BROUGHT FORWARD . . .	....
Certificates cancelled since the date of last meeting representing . .	....
Add "New and Cancelled" Certificate(s) Nos......... representing .	....
Total . . .	....
Deduct certifications on cancelled Certificates awaiting the lodgment of further Transfers .	....
Total . . .	....

Transfer Fees paid into Bank .	....
Add Sundry Registrations .	....
	£...........

....*Secretary.*

....*Registrar.*

N.B.—The above may be extended so as to include Share Warrants, Re-conversions, and Exchange, also Removal Receipts and Advice Lists.

An alternative procedure is for the Registrar to give a certificate of examination in the following form—

I CERTIFY that I have checked Transfers Nos.................to................ inclusive, including the stamps, signatures, and witnessing, and that they appear to be in order.

I also certify that the new certificates (Nos.................to................) represent the same shares as were represented by the old certificates cancelled by me, and that the Directors may proceed with the signing and sealing of same.

....*Registrar.*

....(*Date.*)

(Rubber stamp impression.)

CHAPTER VIII

THE CERTIFICATION OF TRANSFERS

THE enormous amount of business now carried on in financial circles, which has increased by leaps and bounds during the past few decades, has been brought about mainly by the great impetus given to trade and industry in all parts of the world in consequence of the introduction of the principles of limited liability. This has created the necessity for more than one new departure in the daily routine of offices in which the administration of companies is carried on. The process of "certifying" transfers is one of them. The need for this practice has arisen to facilitate the business of share brokers, and though not provided for in the statutes, has been countenanced by judicial authorities who pronounce the act of certification as a natural and necessary step precedent to that of the actual transfer of shares. The form of transfer officially adopted by the Stock Exchange Committee contains along the top of the left-hand margin, running at right angles to the body of the document the following words—

"Certificate for the within-mentioned shares has been lodged at the Company's office.

X. Y.,

Secretary."

Most companies, however, with a Stock Exchange quotation, use a special certification stamp, of the india-rubber variety. This, while satisfying the requirements of the Stock Exchange Committee, offers additional facilities to the company's officials in identifying the deed when returned at a later date to be registered as a completed instrument for acceptance by the board of directors. The stamp is generally found in the following form, and should in its extreme dimensions not exceed four by one and a half inches, and would be imprinted

Number of Certification.	Date.		Transferor's Name.	Cancelled Share Certificate.		Transfers Certified for.		No. Shares in Deeds.
				No.	Shares.	Names.	Addresses.	
	19..							
51	*Sept.*	5	*Holiday, G. H.*	361	500	*Chatterton & Sons*	5 *Capel Court, E.C.2*	50
52	,,	,,	,,	,,	,,	,,	,,	100
53	,,	,,	,,	,,	,,	,,	,,	75
54	,,	,,	,,	,,	,,	,,	,,	125
55	,,	6	*Brownlow, C.*	59	50	*Blowitt & Puff*	1 *Angel Avenue, E.C.2*	15
56	,,	,,	,,	,,	,,	,,	,,	5
57	,,	,,	,,	,,	,,	,,	,,	10
58	,,	,,	,,	,,	,,	,,	,,	20
59	,,	,,	*Littlejohn, H. W.*	203	125	*Smidt, Boss & Co.*	5 *Throgmorton House E.C.2*	75
60	,,	,,	,,	,,	,,	,,	,,	5
61	,,	,,	,,	,,	,,	,,	,,	20

REGISTER

Balance Tickets.		Certified by.	Date when deeds returned for Registration.		Transferees' Names.	Remarks.
No. of Ticket.	Shares in Ticket.					
			19 .			
			Sept.	10	*Baldwin, H. E.*	
			,,	,,	*Curtis, J.*	
			,,	11	*Blathwayt, S.*	
19	150	*G. H. O.*	,,	16	*Colport, C.*	*Balance ticket* 19, *surrendered* 16*th Sept.*, 19.. *Transferor retains* 150 *shares. Issue Share Certificate next* **board.** *Ticket* 20 *cancelled,* 9/9/19..
20	35	*G. H. O.*				
			Sept.	13	*Copwell, H.*	
			,,	20	*Johnson, B.*	
21	25	*B. M. J.*	,,	21	*Capper, C. O.*	

over the printed words on the form, or, as may happen, in the vacant space usually occupied by those words.

CERTIFICATION STAMP

* Name and ADDRESS of Company............................ (Incorporation—if abroad)
CERTIFICATE No................................LODGED (Date—mechanical or otherwise)
AT COMPANY'S OFFICE
..........................*Registrar.*
per................

* In an office with several companies, the name, etc., may be omitted and the space left vacant, so that the appropriate company's name can be separately inserted, but this method is not recommended.

It is important that before this stamp is used, the certificate handed in as cover for the deeds to be certified, should, after identifying the shares which it contains with those mentioned on the transfers, be immediately cancelled. Then, upon the back of the share certificate, is entered at once the number of the certification, *the name of the transferee and the number of shares against each transferee.* After this has been effected and checked, the deeds may then be stamped and certified and handed back to the broker's messenger. As an additional precaution in large transfer departments, it has been found necessary to employ a register of certifications. Without it it is impossible to keep an adequate record of the certifications which have been made. It will be seen from the description we have given that the record left in the office consists merely of the information contained in the endorsement of the share certificate deposited, the cancelled certificate being filed away in alphabetical order, i.e. with the transferor's name as a guide. Where only a comparatively small number of registrations is received, this would suffice, as, when further deeds are left to be certified upon the same certificate, it could be quickly traced amongst a small number, but in large concerns, whose shares have a brisk traffic, the utility of the certifications

register is apparent. The certifications are entered in serial order with the numbers of the corresponding certificates, the certificates themselves being filed numerically. It is thus possible to trace previous transactions in which a given certificate is concerned, with much greater promptitude, with the additional advantage of having fuller information than is possible to be inscribed on the back of the certificates alone.

To facilitate the transaction of business on the provincial stock exchanges, the secretary of those exchanges often undertake the duty of certification for the local brokers. The selling broker presents the transfer deed and share certificate to the secretary of the local exchange, who examines, certifies and returns the transfer and transmits the share certificate to the company with a notice of certification in the following form—

NOTICE OF CERTIFICATION

THE STOCK EXCHANGE,
LIVERPOOL.
24*th Jan.*, 19..

THE SECRETARY,
THE COMMERCIAL CO., LIMITED,
LONDON.

DEAR SIR,—

I send you herewith certificate for 500 shares in your Company in the name of John Kelly to meet Transfers certified by me as per particulars below.

Please acknowledge receipt.

Yours truly,
J. J.,
Secretary.

No. of Shares	Transferee.	Distinctive Nos.	
50	James Brown	9781	9830
200	Alfred Dunn	9581	9780
250			

Balance Nos. 9831 to 10080.

Balance 250

Please hold to $\frac{\text{my order}}{\text{or forward to}}$

A study of the form of registration book with the specimen entries, as shown on pages 86-87, will enable the reader to grasp thoroughly the principles in practice. A consideration of the circumstances surrounding the certifications numbered 51 to 54, representing the deeds left by the brokers, Chatterton and Sims, on behalf of their client, G. H. Holiday, reveals the fact that 350 of the latter's shares have been disposed of in four lots, leaving 150 shares still in his favour. The brokers having deposited the certificate with the company, they are now without any documentary evidence of their client's balance. To meet this, a ticket addressed to them is issued, notifying that they still have a residue to dispose of. This is in reality a balance ticket granted by the company, but it must not be confounded with the usual form of balance ticket issued for a balance of shares left over from a number of shares represented by deeds left for *registration*, a stage in the proceedings quite ulterior to *certification*. At the same time, it must not be supposed that all deeds have to undergo this troublesome process of certification ; fortunately, a considerable proportion do not. From the note appearing in the remarks column opposite the four certifications we are considering, it may be assumed that the shareholder, G. H. Holiday, has decided to hold the remaining 150 shares and has instructed his brokers to apply for a share certificate for that balance. The balance ticket is consequently handed in to be cancelled. It is usual to mark the cancelled ticket in some way, showing whether it has been surrendered against further certified transfers, or against the issue of a share certificate; perhaps for both. The cancelled balance tickets should be carefully preserved and filed away in numerical order. To distinguish these forms from the balance tickets issued for residues left from a registration of transfers, they are frequently termed " balance notes." On pages 91 to 93 is given the usual form of balance tickets and balance note.

A comparison of the particulars contained in this specimen " note " with those shown in the first entry in the certifications register will be sufficient to indicate the procedure to be

No. of Shares.	Progressive Numbers of Shares.	
	From	To
(Tabul	ated colum	ns for, say,
20 sets	of distincti	ve numbers

NAME AND ADDRESS (AND INCORPORATION) OF COMPANY

TRANSFER HOURS: 10.30–2. Saturdays, 10.30–12

Telephone No.................

Name of Secretary............................... *No. BT* 1 *up*

Certificate No............................... ....19.......

BALANCE TICKET

Issued in respect of..*Shares in the above-named Company, standing in the name of* .... *and numbered as per margin, the Certificate for which has been deposited in the Company's Office.*

.....................*A B*....................

Registrar.

per...................

New Certificate will be ready in exchange for this Receipt in one calendar month of the above date, and will be sent by post on written request at applicant's risk.

Issued to...
....
.... } arrange for " window " envelope position.

THE COMMERCIAL CO., LIMITED

20 Cowgate,

London, E.C.2

..........................19. .

BALANCE TICKET

No. 1 *up.*

Certificate No................ *Name*..

Number of Shares due on balance ....

Distinctive Numbers.	
From	To (inclusive).

The Commercial Co., Limited,

..........................*for Secretary.*

N.B.—No Transfer for any of the above Balance of Shares can be certified without the production of the Ticket, and this Ticket must be surrendered before any Balance Certificate will be issued.

Issued to.. } arranged for
.... } " window " envelope
.... } position.

THE LAKE BAIKAL MINES, LIMITED.

No. 19.

BALANCE NOTE.

1009 Walbrook, E.C.3
5th Sept., 19..

To MESSRS. CHATTERTON & SONS,
5 Capel Court, E.C.2

This is to certify that 150 Ordinary Shares Nos. 15,361 to 15,510 inclusive remain in the account of G. H. Holiday.

For The Lake Baikal Mines, Ltd.
ROBERT RIDDELL,
Registrar.

Ex certifications 51/54
returned 9/9/19..

adopted in these cases. As a further illustration it will easily be seen that the certifications numbered 55 to 58 follow a similar course to those we have discussed, with the exception that No. 55 only was made in the first instance, when a balance note was issued for the remaining shares. This note was returned three days later, accompanied by three further deeds for certification, thus disposing of the shares covered by the note, which was then cancelled. It may perhaps be asked why these deeds are not left for registration or held over by the brokers until completion. It must suffice to say that the course we have indicated has to be adopted owing to the inexorable exigencies of the Stock Exchange Settlement Department. To discuss the *raison d'être* of such a complicated routine is not within the scope of this book. We will merely add that it is the business of the company's registrar and his staff to afford every facility for the rapid execution of all business connected with the certification and registration of transfers. It is, moreover, work which calls for the most unremitting exactitude ; the slightest mistake which may go uncorrected may lead to the greatest possible confusion and very likely considerable loss. As to this latter point, it must be remembered that should loss arise through negligence or carelessness on behalf of the transfer department, the directors may be, and in many cases have

THE COMMERCIAL COMPANY, LIMITED

(*Incorporated under*..)

No.................   No. of Shares ....

CAPITAL £..

DIVIDED INTO.........................SHARES OF £.........EACH.

This is to Certify that...
of...is the registered holder of.........
.........................shares of £.........each.............paid [1]numbered..............................
as in the margin hereof in..LIMITED,
subject to the [2]Memorandum and Articles of Association of the Company.

Given under the Common Seal of the Company[3] the ....day of..........................19..

....*Director.*

SEAL

(...*Director.*)

....*Secretary.*

No transfer of any of the above shares can be registered without the production of this Certificate.

Registered (or London) Office................

[1] Alternatively, "numbered as on back hereof."

[2] For companies incorporated under the No Liability Act, say, of Victoria, Australia, substitute "Rules and Regulations of the Company."

[3] Certificates of colonial companies issued by a London Office will be marked here "at London" and also be marked at the top of the certificate "London Register."

SHARE CERTIFICATE, ENDORSEMENT OF CERTIFICATE AND REGISTERED TRANSFERS

Certification No.	Transfer Deed No.	Transferees.	No. of Shares.	Distinctive Nos. inclusive.		New Certificates' Nos.	Date of Board Meeting.	Director's initials.	
				From.	To.				
51	79	*Baldwin, H. E.*	50	15011	15060	341	19/9/19 . .	*W. O.*	
52	80	*Curtis, J.*	100	15061	15160	342	,,		
53	81	*Blathwayt, S.*	75	15161	15235	343	,,		
54	82	*Colport, C.*	125	15236	15360	344	,,		
		Balance . .	150	15361	15510	345	,,		
			500						

ALTERNATIVE ENDORSEMENT FOR BACK OF SHARE CERTIFICATE

No. of Shares.	Distinctive Numbers within referred to :	
	From	To
....	....	....
....	....	....
....	....	....

Shares Transferred.			No. of Shares.		Distinctive Numbers.	
Trans-fer No.	Date of Certification or Lodgment of Transfer.	Transferee			From	To
....	....	....	....	....	....	....
....	....	....	....	....	....	....
....	....	....	....	....	....	....

been, held to be personally liable to make good those losses whether suffered by the company or other persons concerned in the transactions. The methods described in this and other chapters relating to the business of the registrar's department, are such as will be found in operation in the majority of the great companies in this country and in America. Such procedure admits of the smallest possibility of fraud either individually or where employees act in collusion.

CHAPTER IX

DEBENTURES

IF its regulations permit, a company may exercise, through its directors, who may, or may not, have to obtain the sanction of the members, the right of raising capital; technically known, and referred to in the articles of association, as "borrowing powers." It frequently happens that an issue of debentures takes place, and forms part of the general arrangements in the promotion of a company, though, as will have been seen from previous chapters, these issues of debentures bear an entirely different relation in the company's affairs from the issues of the different classes of shares. A holder of a share in a company is tantamount to being a partner in the business, whereas debenture holders are connected with the concern in quite another manner. Their position is rather that of a money lender who holds a bond given by the company, carrying a prior right over ordinary creditors and members or a charge over certain or all of the company's property. The characteristics of the debenture holder's position have been likened, and with a good deal of truth, to those of a pawnbroker.

The methods to be pursued to carry out an issue of debentures follow very closely upon the lines adopted in the case of an issue of shares, assuming the issue to be made to the public. The routine practically follows that already indicated for application, allotment, and calls of shares. The keeping of a register of debenture holders is done in a similar manner to that outlined for the register of members. Changes of proprietorship in the debenture bonds, too, are effected in the same way as with the register of transfers for shares, a slightly modified form of transfer deed being utilised for the purpose.

The conditions under which an issue of debentures is

promulgated vary in the case of a simultaneous issue with shares as a part of the prospectus covering the issue of both; and, in the case of an issue solely of debentures by a separate prospectus. In both cases the prospectus sets forth the whole of the stipulations, and states fully the rights and obligations of the company, and also of the prospective subscribers. As a rule, trustees are appointed who represent the general body of the debenture holders. To these trustees a document known as a trust deed is granted. The trust deed itself forms an undertaking or covenant given by the company, and secures to the debenture holders such properties and assets of the company, against which the trustees, on behalf of the debenture holders, will have a prior claim for the payment of the principal moneys covered by the deed, and consequently the several bonds and the specified rate of interest payable and accumulated thereon.

The X Company, Limited, possessing the necessary powers by its articles, proposes to make an issue of £50,000 in 5% debentures, to be comprised of 500 bonds of £100 each. The company has appointed two trustees to represent the debenture holders; a trust deed in the name of these trustees is drawn up and, together with a specimen of one of the bonds forming the issue, registered at Somerset House. The offer to subscribe for these debentures is made, we will assume, at the same time as the issue of the share capital; in other words, will be embodied in the prospectus prepared at the date of promoting the company. To deal with these debentures, an entirely separate set of accounts will be needed, but for all practical purposes, they will be almost identical with those adopted for the share capital, except as regards the register of mortgages, which does not form a part of either the share accounts or those of the financial system. It is really a book kept, as we have shown, for statutory purposes, but bears no actual relation to the other books.

The prospectus will be accompanied by forms of application distinct in colour from those used for the various classes of shares. For the purposes of identification, and to prevent

confusion, these forms will be used by the persons applying for the debentures in the same manner as those in use for share applications. They will be presented to the bankers with the amount required to be deposited for each debenture, the bank keeping a separate account and pass book in which to record the several deposits. When so entered the application forms are sent to the office of the company where they are in turn recorded in the debenture application and allotment list. The £50,000 issue requires a ten per cent deposit, and the balance to be paid up within one month of allotment. An applications book to record this information will require to show—

(1) The numbers of the applications.

(2) The names, addresses and descriptions of the applicants.

(3) The number of bonds applied for.

(4) The amount deposited.

(5) The number of bonds allotted and their distinguishing numbers.

(6) Folio of Debenture Register.

(7) The amount paid as balance due on allotment.

(8) Date of payment.

(9) Amounts returned to applicants where no allotment is made, or where only a part of the bonds applied for has been allotted, the amount of deposit being more than sufficient to cover the whole of the bonds allotted to any applicant.

(10) Remarks.

Debentures may be issued in various forms, the most common being—

(1) Registered debentures, in which separate bonds for distinctive amounts are issued to each holder, interest thereon being paid direct to each holder by means of interest warrants.

(2) Debenture bonds to bearer with coupons attached for the payment of interest. Bearer bonds are sometimes issued with the right of conversion into registered bonds at the option of the holder.

Exceptionally, registered bonds may be issued with interest coupons attached, but this form of issue is not popular.

A debenture issue may take the form of stock, in which case separate bonds, as shown in the instance we have illustrated, would not be issued for each debenture bond, but would take the form of so much stock, as in the case of stock forming part of the subscribed capital of a company when the shares have been converted into stock. It is usual to stipulate that debenture stock will be issued in multiples of £5, £10, £50, or £100, and will be transferred only in such amounts as may be adopted. This would also be the case with stock converted from shares.

Registered and bearer debentures are both subject to stamp duty, but debenture stock certificates are exempt; in the latter case the duty on the total issue is impressed upon the debenture trust deed.

Debentures are sometimes issued with the right of conversion into shares but it is important to remember that although debentures may be issued at a discount, share capital must be paid in full. If, therefore, debentures are issued at say £95 per £100 bond with the right of conversion into shares, the maximum amount of share capital which may be issued is £95 per £100 bond.

Specimen registers for the different classes of debentures are given on pages 102 to 104.

Debentures, when issued to bearer, frequently have attached to them at the foot, certain coupons serially numbered, and each with a date corresponding with a period of a half-year or year. These coupons are to be presented to the company's bankers, or at the registered office of the company, at the dates specified, when the agreed amount of interest is paid to the person presenting the coupon. It is a common thing to find as many as thirty coupons attached to a debenture bond, each representing a half-year's interest. The coupon is detached by tearing it away at the perforation surrounding it or by cutting it away when (as more often occurs) there are no perforations. The dates and numbers commence from the bottom of the document.

The transfer of debentures is carried out by means of

APPLICATIONS AND ALLOTMENTS OF DEBENTURES

£50,000 (£100 Bonds) numbered 1 to 500, payable £10 on deposit, balance on allotment

No. of Application.	Applicants. Names.	Applicants. Addresses.	Applicants. Description.	No. of Bonds applied for.	Amount paid on Deposit.	Bonds allotted. No.	Bonds allotted. From.	Bonds allotted. To.	Folio of Debenture Register.	Balance Amount due on Allotment.	Date of payment of Balance.	Amounts refunded to Applicants	Remarks.
											19..		
1	*Hardcastle, John W.*	1 *Beckton Terrace, Rutland*	*Gentleman*	15	£150 0 0	15	1	15	1	1350 0 0	Nov. 10		
2	*Campbell, William B.*	5 *Park Lane, W.1*	*Broker*	100	1000 0 0	10	16	25	2				
3	*Brassey, Sir Henry O.*	*Benwell Manor, Aylesbury*	*Knight*	20	200 0 0	1	26		3			100 0 0	Refund 8 Nov.
4	*Sackville, Herbert H.*	1 *Grosvenor Crescent, Bayswater, W.2*	*Colonel*	10	100 0 0							100 0 0	Refund 8 Nov.
5	*Cresswell, Mary S.*	5 *Benstead Villas, Norwood, S.E.19*	*Spinster*	2	20 0 0	1	27		4	80 0 0	Nov. 15		
6	*Baker, John*	5 *Capel Avenue, Threadneedle Street, E.C.2*	*Banker*	50	50 0 0	50	28	77	5	4500 0 0	,, 9		
7	*Hillsborough (Lord), Neville B.*	*Cherwell Manor, Hatfield*	*Peer of the Realm*	20	200 0 0	20	78	97	6	1800 0 0	,, 21		
(1)		(2)		(3)	(4)		(5)		(6)	(7)	(8)	(9)	(10)

DEBENTURE REGISTER

Name	Address	Description
Hardcastle, John W.	1 *Beckton Terrace, Oakham, Rutland.*	*Gentleman.*

Debenture Bonds disposed of.							Debenture Bonds acquired.						
		Particulars of Bonds.							Particulars of Bonds.				
Date of Transfer.	Transfer Deed No.	Transferee's Name.	No. of Bonds.	Distinctive Nos.		Total value.	Date of Entry herein.	No. of Allotment or Transfer.	If by transfer, transferor's name.	No. of Bonds.	Distinctive Nos.		Total value.
				From	To.						From.	To.	
							19...		Deposit				150 0 0
							Nov. 10	1	Allotment	15	1	15	1350 0 0
													1500 0 0

DEBENTURE RECORD BOOK

Left *side of book*—

Endorsement of Bearer Debenture Bonds to Registered Debenture Bonds:			
Application No.	Date of Registration.	Registered Holder.	Address and Occupation.
	19..		

Right *side of book*—

No. of Bonds.	*Distinctive Nos.*		*Coupons Attached.*		Folio in Register.	Reconversion to Bearer Debentures.		
	From	To	From	To		Application No.	Date of Reconversion.	Former Registered Holder.

COUPON RECORD

Debenture No.	Coupon Nos.										Debenture No.
	1	2	3	4	5	6	7	8	9	10, etc.	
1 2 etc.											1 2 etc.

RECORD OF CONVERSION OF DEBENTURES TO SHARES

No. Date of Conversion and Certificate.	Name.	Address and Occupation.		No. of Bonds.	Distinctive Nos. of Bonds.		No. of Shares.	Distinctive Nos.		R. of M. (Folio).	No. of Certificate.	Entered in Record Book.
					From	To		From	To			
19..			BINDING MARGIN									

transfer deeds, as in the case of shares, the deeds being drawn up and completed by the contracting parties and presented to the company for registration in a transfer register kept for that purpose. The deeds, though very similar, should in no way be confused with those drawn up for the transfer of shares. As will be seen throughout this chapter, separate books must be kept for dealing with all transactions relating to debentures.

Probably the best definition of a debenture is that of Mr. Justice Chitty (*Levy* v. *Abercorris Slate Co.* (1888), 37 Chan. Div., p. 264). His lordship said : " In my opinion a debenture means a document which either creates a debt or acknowledges it, and any document which fulfils either of these conditions is a debenture. I cannot find any precise legal definition of the term ; it is not either in law or commerce a strictly technical term, or what is called a term of art." This pronouncement serves very usefully and concisely as a general description of this well-known, yet little understood, document. When issued or given by companies it is under seal. In effect it acknowledges a debt, and usually secures to the holder certain or all of the assets of the company. It may be in the form of a " Debenture to Bearer," in which case the property in it passes from one person to another by a mere act of delivery. If made to a registered holder, the title to it passes only by the execution of a deed of transfer. A certain rate of interest is always provided for, which interest as well as the principal, may also be secured to the holder by the creation of a charge. Debentures carrying a charge against property usually have the qualifying term of mortgage debentures. In other words, the property over which the bonds carry a charge is said to be mortgaged. It is often found that more than one series of debentures is issued which have a charge over the same property. The different series are designated first or second mortgage debentures, as the case may be. The first mortgage debentures have a prior claim over the property before the claims of the holders of the second series can be satisfied. A debenture

REGISTER OF TRANSFER

No. of Deed.	Date of Registration.	Transferor.		Debentures.			Transferor's Register Folio.	Amount of Debentures transferred.
		Name.	Address.	No. of Bonds.	Distinctive Nos.			
					From.	To.		
	19..							£
1	*Dec.* 14	*Hardcastle, J. W.*	*Oakham*	5	1	5	1	500
2	,, 16	*Benjamin, Sir O.*	5 *Park Lane, W.*1	1	99	—	35	100
3	,, 17	*Simmonds, F.*	19 *Holloway Lane, N.*7	3	105	107	38	300

OF DEBENTURES.

Transferee.				Transferee's Register Folio.	Amount of Consideration.			Remarks.
Surname.	Christian Name.	Address.	Description.					
Baynton	*Samuel Henry*	59 *Bletchinley Street, Pimlico, S.W.*1	*M.D.*	59	£525	0	0	
Sampson	*Marcus Percival*	3 *Throgmorton Street, E.C.*2	*Broker*	60	101	10	0	
Bertrand	*Eustace Frederic*	*Belwood Manor, Oxshott, Surrey*	*Baronet*	61	307	10	0	

which carries no charge over any property or effects of a company is termed a " naked " debenture. It is, nevertheless, under the company's seal, and is merely a bond promising to repay the principal moneys, and the stated rate of interest. A holder of such an instrument would, in a winding up, rank merely as an unsecured creditor, and would only be entitled to prove against the company in the ordinary way. It not infrequently happens that such bonds contain a proviso restraining the company from issuing any mortgage debentures, or prohibiting it from creating a charge over its properties and thus creating a prior claim over the bonds containing such a proviso.

The X Company, Limited, may have varied the conditions of their £50,000 issue of 5 % debentures to the extent that they were subscribed for at a discount of 5 per cent, to be redeemed at a period of, say, twenty years at par, or a certain number may be redeemed each year during that period, the numbers of the bonds to be redeemed on each occasion to be ascertained by ballot. Again, in the case of a flourishing and wealthy concern, it might be decided to make the issue on less favourable terms to the subscribers, by offering the bonds at a premium, or, say, £105 for a £100 bond, the company being held to a liability for the latter sum only, to be redeemed at a certain specified time; but, in such a case, only a lapse of, say twenty years, as there would be no advantage in paying a premium if the principal were to be refunded after a short term.

Irredeemable debentures are those which, in theory, are issued in perpetuity, except that such debentures may, by a condition precedent, be redeemed on the happening of any prescribed contingency somewhat remote. This class of debenture is very uncommon, and is by no means popular. The legality of such an issue was established by the Companies Act, 1907, the provisions being reproduced in the Consolidation Act, 1908, section 103.

It will be remembered that when we dealt with the methods of arranging for the cash receipts as they are paid in the

case of share issues of moderate or extensive character, a plan of providing separate cash books was found to be essential, as a multitude of entries of a similar kind would soon exhaust the capacity of a company's general cash book, which should be utilised to record only daily or weekly totals of the cash received by the bank under the heads of application and allotment, calls, etc. With an issue of debentures of considerable magnitude, a similar course will be advisable for more than one reason, the primary one being mentioned above. The secondary reason is that a separate cash book for shares and debentures frees that volume for treatment at the hands of the registrar's department. The book would only be needed by the accountant and his staff in order to reconcile with the bank accounts and to enter the daily or weekly totals from it to the general cash accounts. An undue multiplicity of books in an establishment is an abomination to all concerned. On the other hand, to squeeze a vast amount of detail through one book in a case of this description, where two departments of the organisation are concerned, has very obvious drawbacks. Reference should be made to the subject as dealt with under the head of subsidiary cash accounts for shares on page 129 *et seq.*

In our examples given in this chapter, we have dealt with the case of a debenture issue consisting of two instalments, an amount payable on deposit with the application for the bond, and a second and final one due upon allotment. This is, perhaps, the more usual course, but we find almost as frequently that calls are made after allotment, just as in the case of the majority of share issues. To cope with a situation of this kind, the same style of book used for applications, allotments, and calls for shares would adequately meet the case. In nearly all instances, the particulars required for calls, and the payments on account of them could be incorporated in one book, because the various instalments due upon debentures scarcely ever extend over a very protracted period. Having mastered and provided for the necessary books as dealt with under the head of

share issues, the reader will find it a simple matter to apply the same principles to the needs of a debenture subscription. The particular character of the case in hand can be accommodated as may be deemed necesssary. In any event, if the dates on which instalments become due are definitely known, it is much better to keep the whole under one binding, unless the instalments are too numerous ; but this is unlikely with debentures.

SUBSIDIARY CASH BOOK (DEBENTURES)

Date of Payment.		No. of Allotment Letter.	Names.	Folio of Allotment List.	Folio of Debenture Register.	Amount Paid.			Total General Cash Accounts.		
19..											
Nov.	9	5	*Baker, John*	1	4	£4500	0	0			
,,	,,	58	*Epps, Sir Henry*	13	61	750	0	0			
,,	,,	13	*Baldwin, Wm.*	11	55	160	0	0			
,,	,,	135	*Croft, Col. J. H.*	31	148	70	0	0			
									£5480	0	0
,,	10	1	*Hardcastle, J. W.*	1	1	1350	0	0			
,,	,,	17	*Tompkins, Mrs. C.*	7	25	150	0	0			
,,	,,	318	*Scratton, B. H.*	51	195	50	0	0			
,,	,,	203	*Bennett, F. C. H.*	33	141	560	0	0			
									2110	0	0

For the purposes of treating the issue of the X Company's issue of debentures mentioned on page 107, in the general financial books, we will assume that the 500 £100 5 % Debenture bonds were oversubscribed to the extent of 200 per cent, or that applications were received for 1,500 bonds. Ten per cent was due on deposit, the bonds being issued at par, so that £15,000 will have been paid into the bank as deposit, at the closing of the subscription list. To some of the applicants allotments were made to the full extent of the bonds applied for ; to others partial allotments were made, whilst to some the whole of the deposit was returned. The whole of the balance becoming due on allotment, those who obtained an allotment in full will be called upon to the extent of £90 per bond. To those who received a partial allotment, the amount of their deposit in each case over and above the bonds actually allotted, will be deducted from the amount due on allotment. On the 500 bonds £5,000

became due on application. The subscription being £15,000 it was £10,000 in excess. After the completion of the allotment, upon totalling the list it was found that £8,500 would be returnable to unsuccessful applicants who received no allotments. Consequently £1,500 remained of the surplus application money, representing those who had obtained partial allotments. Ninety per cent being due on allotment of this £50,000 issue, £45,000 would be the amount due on allotment had there been no surplus application; the £1,500 being deducted from this amount leaves £43,500 due from allottees. In the financial books these transactions will appear as follows—

JOURNAL

19.. Oct. 1	Debentures Application & Allotment Account *Dr.*	P.L.	£5000	0	0			
	To Debentures ..	P.L.				£5000	0	0
	Being amount due on issue of 500 5 % Debentures of £100 each issued by prospectus dated October 1st, 19.., representing £10 per bond.							
Nov. 1	Debentures Application & Allotments Account *Dr.*	P.L.	45000	0	0			
	To Debentures ..	P.L.				45000	0	0
	Being amount due on allotment of above debentures at £90 per bond.							

GENERAL CASH BOOK

19.. Oct. 5	To Debenture Applications and Allotments A/c deposits on applications as per list	P.L.	£15000	0	0	19... Oct. 15	By Debenture Applications and Allotments A/c for refund of deposits as per list..	P.L.	£8500	0	0
Dec. 3	To Debenture Applications and Allotments A/c balances due on allotment (see list), less £1,500 from deposits	P.L.	43500	0	0						

LEDGER ACCOUNTS

5 % DEBENTURES

						Oct. 1	By Applications and Allotments A/c	1	£5000	0	0
						Nov. 1	Do. do. do.	1	45000	0	0
									£50000	0	0

DEBENTURES, APPLICATION AND ALLOTMENTS

		J.						C.B.			
Oct. 1	To Debentures (Application)	1	£5000	0	0	Oct. 5	By Cash ..	2	£15000	0	0
						Dec. 3	,, ,, ...	19	43500	0	0
Nov. 1	,, Debentures (allotment)	1	45000	0	0						
	,, Cash returned to applicants	C.B. 12	8500	0	0						
			£58500	0	0				£58500	0	0

The outline of a straightforward issue at par such as we have just now discussed is comparatively simple, when compared with an issue involving more complicated terms as to whether the debentures are offered at a premium or at a discount. In each case, the company making such an offer is held liable to the extent of the nominal value of the bonds. Then, again, the question of underwriting may be present in the case of an issue at a discount. Instead of making the conditions of the issue as we have described them in the last example, we will assume that the £50,000 in debentures were offered at 95 per cent and that arrangements had been made with underwriters to guarantee the subscriptions in consideration of 2 per cent commission on the nominal value of the bonds, thus reducing the money accruing to the company 7 per cent below par; or, 5 per cent to the bondholders, and 2 per cent to the underwriters. The difference between the net amount received and the nominal amount would be £3,500, which would have to be placed to the debit of the company's account, and would thus figure as a fictitious asset, which would have to be written off out of profits during the life or tenure of the debentures, preferably well before their time for redemption. In addition to the

journal entries made for the issue assumed to be made at par, it will be necessary to pass further entries through the journal as follows—

JOURNAL

Cost of Debenture Issue .. .. *Dr.*		£2500 0	0				
To Discount on Debentures				£2500	0	0	
Being 5 % discount on £50,000 in Debenture bonds as per prospectus.							
Cost of Debenture Issue *Dr.*		1000 0	0				
To X, Y & Z (underwriters)				1000	0	0	
For commission of 2 % for guaranteeing the issue.							

LEDGER ACCOUNTS

COST OF DEBENTURE ISSUE

To Discount on Issue ..	J.	£2500	0	0					
„ Underwriters' Commission ..	J.	1000	0	0					
		£3500	0	0					

NOTE.—Under sec. 90 of the Companies Act, 1908, it is provided that sums paid by way of commission in respect of any shares or debentures or allowed by way of discount in cases of debt must be stated in every B/S except to the extent they have been written off.

DEBENTURE APPLICATION AND ALLOTMENT ACCOUNT

					By Discount	J.	£2500	0	0

X, Y AND Z, UNDERWRITERS

					By Commission	J.	1000	0	0

The cash account, as given on page 110, would, of course, vary to the extent that the amount received on allotment would be £2,500 less than there shown, whilst a payment of £1,000 on the credit side of the cash account would, when passed to the debit of the underwriters' account, close the transaction, leaving the debentures as shown before at £50,000, the company's liability under that head; and,

conversely, the cost of debenture issue at £3,500 to be written off, as before suggested.

Suppose, now, that our £50,000 issue had been made at £105 for each £100 bond, or a premium of 5 per cent. To meet such a case will be a simpler matter than the last one dealt with. The amounts due on allotment will vary in both cases as compared with the issue at par. For the offer at 95 per cent or 5 per cent discount, the notices of allotment will call in an amount equivalent to £85 per bond, whilst those for the issue at a premium will demand a final payment of £95 per bond. Consequently, in the latter case, the totals at the foot of the allotments paid column of the allotments list, and the corresponding total entry of cash received in the general cash book will settle the position of affairs as far as the books are concerned, the result being that in addition to the liability of £50,000 for the face value of the debentures, there will be also a nominal liability, representing " Premiums on Debentures " to the amount of £2,500 for premiums received. This liability is paradoxical because no one has a claim to it ; it has resulted in a distinct profit for the issuing company, yet it should not be treated as a profit. There is no reason, however, why such an item may not be utilised for the initiation or augmentation of a reserve account either of a general nature or for a specific purpose.

To meet this situation the second debit item of the cash book shown on page 110 will be augmented to the following extent, and these entries, when carried to the ledger, as shown, will result in the position we have indicated above.

GENERAL CASH BOOK

Dec. 3	To Debenture Application & Allotment A/c balances due on £50,000 at 90 % (less amounts retained on deposits) ..	P.L.	£43500	0	0				
	„ Premiums thereon at 5 %	P.L.	2500	0	0				

PREMIUM ON DEBENTURES ACCOUNT

				By Cash, being 5 % premium on 50,000 debentures	C.B.	£2500	0	0

The redemption of debentures should be provided for by means of a sinking fund, created at the time of issue, if the whole issue is to be redeemed at a stated time. This is usually effected by means of insurance, or by the cheaper method of setting aside a certain amount out of profits each year, sufficient to meet the debentures when due. It is, of course, a simpler procedure if the provisions of the issue stipulate that a certain number of bonds will be balloted for at the end of each year and redeemed out of current revenues. Then, again, the redemption of a series of debentures may result in their reissue under the same terms, or the terms may, in several particulars, be modified, which would mean that in either case a fresh issue must be made to take the place of the one redeemed.

Take the first of the above instances of debenture redemption, and assume that the series under consideration is issued on condition of being repayable on a given date, say twenty years hence, and that it is proposed to provide an annual amount out of profits to meet this liability, which is known to be falling due at a given date. It will be necessary to invest this amount set aside in each year in some sound investment, which will eventually yield the interest decided upon, or as near as may be, so that, at the end of the " life " of the bonds, the investments may be realised to pay off the bonds. The method of arriving at the required annual instalment will be found by taking the annual sinking fund value of £1 over twenty years at, say, 3 per cent, multiplying this value by the amount of the bonds in circulation, or by the amount which is to be redeemed. This will give the yearly

sum at 3 per cent to be set aside out of profits. Say the issue is £50,000, then, by Inwood's Tables—

The annual instalments at 3 per cent. compound interest to produce £1 in twenty years is £·0372, therefore the amount to be provided yearly to redeem the *principal* on the debentures will be 50,000 × ·0372 or £1,860.

This sum must be taken out of profits at the *close* of each financial year, and placed to the credit of an account for "debenture redemption sinking fund." The amount should be invested as stated above, and the interest accruing from the investment will be credited to the sinking fund. The basis of calculation being on compound interest, the dividends on the investment must be invested also.

The alternative to this method, though, perhaps, more expensive, is to arrange for the redemption by a policy of insurance, an equivalent to an endowment policy. This is, probably, the safer course, provided the insurance company is a sound one, as the amount at the disposal of the directors for the purpose of redemption will be a known quantity, whereas in the case of the sinking fund, it must of necessity be more or less approximate, depending, as it does, on the success, or otherwise, of their investments.

Where an issue of debentures is to be redeemed gradually, and at regular and stated periods, it is necessary to pay off only the bonds which have been balloted for, debiting to debentures account the amounts so paid, thus reducing the liability under that head by the amounts of the periodical payments. In the case of an issue of 500 £100 bonds to be redeemed in twenty years by equal annual instalments, it would be necessary to ballot for twenty-five bonds at the end of each year, for the redemption of which £2,500 in cash would be required.

A reissue of debentures will necessitate the calling in of the bonds in circulation, and these must be cancelled, fresh bonds being issued in their stead, and the same formalities observed as in the case of the original issue. Suppose we take the case of a company which had issued debentures,

say, ten years ago, and these debentures are now due for redemption. The company may be a prosperous one, but it has been found inexpedient to find the money for paying off their liability. The investment being satisfactory, the debenture holders would perhaps prefer to leave it undisturbed. This being so, we may assume that arrangements have been entered into and carried through, for a reissue of the whole of the bonds for a further term of ten years, and the directors, in view of the successful working of the company, have induced the holders to accept the new issue on slightly less favourable terms as to rate of interest. We will presume then, that the 500 5 per cent debentures of £100 each issued by the X Company, Ltd., arrive at their date of maturity, and that it has been decided to reissue them in bonds of the same amount bearing interest at 4½ per cent instead of 5 per cent. This transaction will involve—

(i) The calling in of the bonds in circulation and the preparation of a list showing the amounts held by each person; provision being made on the list for the particulars of the new bonds to be issued.

(ii) Notice must be sent to the Registrar of Joint Stock Companies that the liability of the company as to the original issue has been satisfied, each bond being produced with an endorsement to this effect thereon, signed by the holder.

(iii) An entry in the company's register of mortgages to the same purpose.

(iv) The registration at Somerset House of the new series of debentures, with the trust deed, if any, and a copy of the certificate of such registration by the Registrar of Joint Stock Companies must be endorsed on each bond.

(v) The entry in the Company's Register of Mortgages, of particulars of the new issue.

(vi) The preparation of a new Debenture Register into which the holders' names, addresses, descriptions and holdings will be entered as in the case of the original issue.

As regards the financial books, the carrying out of the

necessary entries in that direction will involve simply a journal entry as follows :—

JOURNAL

	5 % Debentures .. *Dr.*	P.L.	50000	0	0				
	To 4½ % Debentures..	P.L.				50000	0	0	
	For cancellation of the series of 500 £100 5 % Debentures and the issue of 500 £100 4½ % Debentures in lieu thereof as per minute number 958.								

LEDGER

5 % DEBENTURES

To 4½ % Debentures ..	J.	£50000	0	0	By Application and Allotments A/c	J.	£50000	0	0

4½ % DEBENTURES

					By 5 % Debentures ..	J.	£50000	0	0

From the result of these entries, it will be observed that the account containing the liability of the company on the original issue is now closed, whilst the second account represents the liability on the revised terms under the conditions of the reissue.

Instead of debentures being in the form of registered bonds, such as we have hitherto dealt with in this chapter, an issue can be made as debenture stock, but in this case a trust deed must be prepared. In such instances, instead of preparing bonds of equal amount for each debenture, a certificate similar to that used for capital stock is prepared, the stock being circulated in multiples of a fixed amount of a pound, five pounds, ten pounds, and so on. When changing hands, the certificate is cancelled, as in the case of shares, whilst a new one is prepared in the name of the transferee. It will be observed that this is an entirely different practice

as compared with registered debentures, or bonds, where we find the bond once issued holds good. The fact that it changes hands is simply notified by an official of the company, in the form of an endorsement on the back of the instrument, as explained under the subject of debenture transfers. The form of transfer and the registration thereof is in precisely the same form as that employed for registered bonds, except for the absence of distinctive numbers. The form of transfer register shown on page 106 can easily be modified to suit the conditions of stock.

The practice of issuing scrip certificates to allottees of debenture stock or bonds is much resorted to if the different instalments due on the debentures run beyond the allotment stage. This is inevitable, as the bond or stock certificates could not be prepared until the whole amounts due had been paid up by the holders. The scrip certificate is a similar document to an allotment letter. As a matter of fact it may be said to fulfil almost the same office ; it is issued to allottees and retained by them to be surrendered upon the payment of the final call in exchange for the bond or debenture certificate. Meantime, on the back of the scrip is inscribed by the secretary of the company, a note as to the payment, with date, amount, and nature of instalment. Call receipts are, nevertheless, issued for each payment, and these, together with the scrip, must be handed up on completion of the payments.

It is essential that these scrip certificates should be bound up in the form of a book with counterfoils, upon which should appear the same wording and information as on the scrip itself.

Within twenty-one days of the passing of a resolution to issue debentures carrying a charge upon any assets of the company, notice on the prescribed form has to be filed with the Registrar of Companies at Somerset House. This form must contain the following information—

(i) The date of the trust deed and the name of the trustee or trustees to whom it is granted ; if there is no trust deed,

Impressed Stamp 2d.

DEBENTURE SCRIP CERTIFICATE

No. 58.

THE "X" COMPANY, LIMITED

(Incorporated under the Companies Acts, 1908 to 1917)

Share Capital £150,000

In 75,000 Preference Shares of £1 each and 75,000 Ordinary Shares of £1 each

£50,000 5% Mortgage Debenture Stock

Trustee for Debenture Holders,

The Rt. Hon. THE VISCOUNT TRALEE, K.P.

This is to certify that Emanuel Kanter, Esq., of Melrose, Firs Avenue, Buckingham, is entitled upon payment of all calls when due, and subject to surrendering all receipts for such calls or other instalments hereon, and this scrip certificate, to 5% Mortgage Debenture Stock amounting to two hundred and fifty pounds (£250) in The "X" Company, Ltd., bearing interest at five per cent per annum, the certificate for such Debenture Stock to be issued when all payments of calls have been made as provided by the Company's Articles of Association.

As witness to the Common Seal of The "X" company, Limited, this 10th day of August, 19 . .

The Seal of The "X" Company Limited.

IGNATIUS BLOUNT, *Director.*
ICHABOD BLUNT, *Secretary*

N.B. The banker's receipts for calls will be endorsed on the back hereof when surrendered to the Company.

Date of Payment.		Application Allotment or Calls.	Rate %	Amount paid.			Secretary's Signature.
19 . .							
June	10	*Application*	10%	£25	0	0	*I. Blunt*
,,	30	*Allotment*	15%	37	10	0	*I. Blunt*
Aug.	15	*First Call*	30%	75	0	0	*I. Blunt*
Oct.	3	*Final Call*	45%	112	10	0	*I. Blunt*
				£250	0	0	
							I. B.

then the date of resolution which creates the charge covering the issue.

(ii) The amount to which the mortgage extends.

(iii) Particulars of the property so charged, and if on specific assets of the company the location of such assets must be given.

(iv) The names of the trustees, if any, for the debenture holders.

(v) A statement of any allowance as to discount off the principal moneys, and also of commission to be paid in consideration of procuring the subscriptions for the issue, or for guaranteeing such subscriptions.

In addition to this, it will be remembered in our survey of statutory obligations that all companies are required to keep at their registered offices a register giving practically all the information detailed above. A study of both of these forms will sufficiently explain their import. The company's register also contains provision for any entries referring to the redemption or satisfaction of mortgages. As regards the Somerset House Register, a separate "notice of satisfaction" is to be filed, which is duly noted in the Board of Trade records of the particular issue.

CHAPTER X

CONVERSION OF SHARES INTO STOCK

Conversion of shares into stock occurs occasionally with limited companies incorporated under the Companies Acts, 1908 to 1917, but is frequently practised by companies which have been formed by special Act of Parliament, or where permission to do so has been provided for by a supplementary statute. With ordinary companies it is generally found that their articles contain a provision to the effect that, with the sanction by special resolution of the members, a conversion of the share capital, of any or all classes of shares, to stock, may be carried out. The Consolidation Act in section 41 (*c*) gives this power, subject of course to the necessary provision in the Articles of Association of the company contemplating such a step. The number of companies which have exercised the power is not large.

It is important to remember that the share capital of a company may not be offered to the public in the form of stock in the first instance. It must be first offered in the form of shares, and be afterwards converted; a special resolution to be passed by the shareholders to that end. This entails a considerable amount of work and consequent expense, as all outstanding share certificates have to be called in for comparison with the members' accounts. The certificates are afterwards cancelled, and certificates of holdings in the form of stock are issued in their stead.

The financial books are scarcely affected by a transaction of this description. It is merely necessary to open another account in the private ledger for the class of stock which is to be formed out of the existing share capital. A journal entry is then made crediting the new account and debiting the shares issued account; the result being an alteration of the denomination of the company's capital liability. The

process at this stage may be complicated, however, inasmuch as the conversion may be attended by conditions which impose an alteration in the nominal liability of the company to its members. It is quite within the bounds of possibility that a company may decide to issue stock in lieu of shares, either for a greater or less amount than that obtaining as regards the shares. If shares are being converted into stock of less nominal amount than the shares, then the stock will be issued at a premium. The transaction thus involves the creation of an account representing the premium or difference between the new stock and the defunct shares. Where the conversion takes place under conditions by which the members obtain a greater claim upon the company, then the circumstances give rise to the reverse effect, and the new issue is made at a discount. That is to say, the amounts which they paid for the old shares will be less than the amount of the converted stock which they receive, and the company will be under a heavier liability to the stockholders to the extent of the difference between the old shares and the increased capital liability in the form of stock.

The following example will best illustrate the position of the three different courses we have briefly outlined above. The X Company, Ltd., with an ordinary share capital account of £150,000, has the following three propositions for converting these shares into stock, as—

(*a*) For equal, or par value.

(*b*) For 5 per cent less than shares held, or £95 stock for every £100 in shares.

(*c*) Five per cent of stock to be added to the existing shares, such accretion in value being in effect a bonus addition to capital from undivided profits or reserve and represented by assets to an equivalent amount.

As regards (*a*), we must assume that the company has found it advisable, owing to the complicated state of its members' accounts, to discard the use of distinctive share numbers ; (*b*) that the occasion may be made use of to reduce to a small extent the amount of capital liability ; and (*c*)

that on the other hand, supposing the company's position the favourable one of possessing adequate undivided profits, it has been thought fit to utilise the conversion as a means of expressing its capital liability more in terms of the true market value of its shares.

To carry out the conversion under (*a*) it will be merely necessary to pass the following entry through the journal—

Ordinary Share Capital Issued *Dr.* To Ordinary Stock .. .. For conversion of 150,000 £1 Ordinary Shares into stock as per special resolution, 15th October, 19..	£150000	£150000

The posting of this into the private accounts results in the closing of the share account, whilst the new credit under the head of "ordinary stock" for the same amount is created.

If the second course be adopted, the entry will be as follows—

Ordinary Share Capital Issued a/c *Dr.*	£150000	
To Sundries		
Ordinary Stock		£142500
Premiums on Ordinary Stock		7500
Being the conversion of the Company's Ordinary Share Capital into stock at the rate of £95 per centum of stock per £100 in shares, as sanctioned by Special Resolution 15th Oct., 19..		

This will result in expunging the old share account which gives place to a new liability in the form of stock of £7,500 less than the old. The latter amount, although standing as a credit, will nevertheless not rank as a liability, the members' claims on the company being now less by that amount.

The third situation will be dealt with as follows—

Sundries		
Ordinary Share Capital Issued *Dr.*	£150000	
Bonus a/c	7500	
To Ordinary Stock		£157500
Being the conversion of 150,000 £1 Ordinary Shares to stock at the rate of £105 of stock to each £100 in shares, sanctioned by Special Resolution, Oct. 15th, 19..		

Reserve Fund *Dr.* To Bonus a/c .. .. Being transfer of amount required on conversion of 150,000 £1 Ordinary Shares into stock at £105 per cent.	£7500	£7500

By this method the members of the company under their new claim as stockholders become jointly interested in the liabilities to the extent of £7,500 more than was the case when they held the shares thus converted. We must therefore assume that considerable balances to the credit of either profit and loss or some reserve accounts have accumulated, and the amount of the premium or bonus is debited to the profit and loss or reserve account.

It may be noted that statutory companies (railway, gas and water companies, etc.), are sometimes authorised by their special Acts of Parliament to issue stock at a discount, but this privilege has not been extended to companies registered under the Companies Acts.

The procedure for the foregoing, as regards the transfer department, is a much more important matter. It is generally found advisable to open an entirely new set of members' accounts or stock registers, the books containing the share accounts being closed. The employment of a conversion journal, wherein are entered the old share certificates as they are received from the members, is brought into use; or the journal may be written up from the share ledgers. The latter is, perhaps, the better course, as the journal will then serve as a ready means of ascertaining the names of those who have omitted to hand in their certificates for cancellation. The column headed old certificate numbers will not be utilised until the certificates are received, when they should be carefully checked and compared with the accounts of the shareholders as to number of shares and their corresponding distinctive numbers. It is very necessary to carry out the work in an orderly and systematic manner. The utmost precautions should be observed before presenting the new stock certificates to the board, to see that the amount of

stock upon each coincides with the nominal value (or the correct proportionate value when the stock is issued either at a discount or a premium) of the shares inscribed upon the old certificate. These certificates must be produced to the directors who sign the new ones, preferably in the same order as they appear in the conversion journal. The whole business will thus be carried out in precisely the same way as that observed when dealing with transfer deeds ; the notice to the shareholders requesting them to forward their certificates with that notice, taking the place of the deeds. The only other difference is that the names on the new certificates will be the same as appear upon those which have been cancelled. It may be as well to mention here that a number of people might attempt to take advantage of the conversion by wishing to have their holdings made out under another name, seeking to avoid the stamp duty and registration fee. This will, of course, be quite in order if the request is accompanied by a duly stamped and attested deed, with the company's fee ; otherwise the transfer would be illegal.

The annexed form of conversion journal is one which will meet the requirements of most situations. From this journal the accounts in the share ledgers will be closed by entries posted from it to the debit of the members' old accounts. Conversely the same entries are made for the stock into the new ledgers, wherein the several accounts are credited. The result is often a welcome change from the old registers which perhaps contain a host of accounts of members who have been more or less active as transferors and transferees, thus creating a condition of some bewilderment as to the precise net holding of any particular individual. Thus it will be observed, the conversion of shares into stock accompanied by the introduction of new registers, may have the laudable effect of placing the accounts of shareholders upon a much more satisfactory footing if the change involves, as it generally does, this process of simplification.

The amounts to be entered into the second cash column

THE EBBW VALE RAILWAY COMPANY

STOCK CONVERSION JOURNAL

For conversion of £1,500,000 £10 5 % Preference Shares into 5 % Preferred Stock at par

Members' Names, etc.			Particulars of old Shares.					Particulars of Stock converted at Par.					Remarks.
Names.	Addresses.	Description or Occupation.	Old Certificate Nos.	No. of Shares.	Distinctive Nos., inclusive.		Share Ledger folio.	No. of new Certificate.	Amount of Stock.			Stock Ledger folio.	
					From.	To.							
Higgins, Sir H.	5 *Bolton Square Mayfair, W.1*	*Knight*	531, 539, 614	1500	31051 1901 61306	32050 2000 61705	$\frac{2}{75}$	39	£1500	0	0	$\frac{1}{51}$	
Bitson, Jane	5 *Manitoba Rd., Croydon*	*Spinster*	1805	2000	61501	63500	$\frac{1}{175}$	40	2000	0	0	$\frac{1}{51}$	
Marks, Saml.	54 *Threadneedle Street, E.C.2*	*Broker*	1208	500	38011 20101	38310 20300	$\frac{3}{89}$	41	500	0	0	$\frac{1}{52}$	
Cardwell, Hubert	3 *Cheapside, E.C.2*	*Merchant (Director)*	138	10000	78501	88500	$\frac{4}{103}$	42	1000	0	0	$\frac{1}{52}$	
	Etc.			Etc.						Etc.			

will vary according to the conditions of the conversion. As the journal will be especially prepared, it will be better to print at the top sufficient information to explain the terms of the change into stock, i.e. whether for equal, greater, or less amount than the nominal value of the shares.

A similar form of journal can be utilised in cases where debenture bonds of a certain definite amount for each are to be converted into debenture stock. The procedure to be followed is upon the same lines as far as the books are concerned.

The conversion of shares into stock has to be notified to the registrar of joint stock companies, giving the date of the special resolution authorising the change and naming the number of the clause in the company's Articles of Association sanctioning the action. The notice must further state the particulars of the shares affected by the conversion, as to number and full denomination as styled in the company's Memorandum of Association, and the precise terms under which the new stock is to be issued to the members.

Reconversion of stock into shares may be effected if desired, provided the articles permit. The statute gives the same power to do this under the same section which grants conversion of shares to stock. This is very seldom found in practice, but where such a case arises it will involve similar treatment to that outlined above, by simply employing a reversal of the conditions.

It should be remembered that stock is never issued to shareholders in the first instance. Stock can be created only from shares which are fully paid. As regards debentures, the case is, of course, different. An issue of debentures is perhaps now more frequently made in the form of stock than in the form of numbered bonds of a stated amount for each.

The condition obtaining as regards the transfer of capital stock or debenture stock is practically the same as that for shares or debenture bonds, the only difference being a dispensation with the distinguishing numbers. Conditions to

regulate the minimum to be transferred, as well as to restrict the transfer of fractional parts of certain amounts such as one pound, five pounds, and so on, are, however, imposed. These prohibitions are made by the board of directors and are not by any means infrequently provided for in the Articles of Association.

CHAPTER XI

SHARE ISSUES AND SUBSIDIARY CASH ACCOUNTS

SPECIAL forms of waste, or subsidiary cash books are needed to keep an account day by day of the several payments made to the bank by the shareholders. This method, however, need not be adopted for moneys received with applications. In that instance, as stated in a previous chapter, the application list is entered up in rotation as the subscriptions or deposits are received at the bank, and so forms a list of payments in the proper order, the total of which is carried to the general Cash Book; or, as some prefer, the list is totalled day by day for such a time as the list remains open, when the whole amount received daily and for each class of shares is carried to the debit of the General Cash Book. An alternative procedure is to re-arrange the applications alphabetically and list them on separate sheets for each letter; the advantage of this method being that, for a large shareholding, any individual name is found more quickly and the share ledgers can be more easily arranged on the self-balancing principle. After allotments have been made, however, it becomes necessary, for the following reasons, to provide another channel through which are entered individual cash receipts on account of shares allotted—

(i) To serve as a book of entry into the share ledgers.

(ii) To enable entries of payments to be made against the respective members' names in the allotment lists and call registers.

(iii) To save the general cash book from being used as a receptacle for a multitude of minor transactions which occur only at the commencement of the company's career, or only at such times as and when an issue of share capital takes place.

Formerly, application forms were generally issued with a form of banker's receipt appended, the receipt form being completed and handed back to the applicant whilst the

application form was retained by the bank and in due course, handed to the company. Of recent years, however, the practice has been to issue the application form only with a footnote thereon stating—

> "The company will forward an acknowledgment in due course, either by Allotment Letter or by return of the deposit."

This method effects a saving of receipt stamps and postage as well as time and labour.

From a study of the Allotment Letters and Call Notices, it will be remembered that the former have a strip attached to the foot, which, upon presentment at the bank with the necessary remittance, is detached and retained by the bankers and handed to the company in due course as a note of the payment having been made.

Call letters are sometimes issued (1) with a detachable receipt, the receipt only being returned to the shareholder and the call letter itself retained as a voucher or, alternatively, (2) call letter and receipt combined with a detachable slip which acts as a voucher; the latter method is now more generally adopted.

These allotment slips and call notices or vouchers are held by the bank in the same way as are the application forms, and are handed over day by day to the company's officials, who enter the payments into the waste cash book, the entries showing the date of payment, name of member (merely surname and initials), the number of the allotment slip or call notice, class of share and amount. As at the later stages the receipt on account of allotment, and the different calls, may overlap, it will be well to have the various papers sorted so that allotment payments may be all entered first, then each call in its respective order; and thus secure the possibility of showing a total amount received under each head per day, as shown in the accompanying form. The utility of such a system will be all the more appreciated when it is recalled that board meetings are frequent at such a period, when the latest information is required to be at hand, and that information

is needed right up to date. This is not possible at all times, where the preparation of the various pass books is sometimes required at short notice. No opportunity should be lost, however, to have resort to these pass books as often as they can be obtained without inconvenience to the bank, for the purpose of checking the Cash Book and reconciling its balance with those of the respective pass books.

The accounts opened by the bank, under the head of application, allotment, and for each of the calls, will, when all payments have been received, be transferred to the credit of the company's general bank account, as also will the account opened under the head of Repayment of Applications in the form of Letters of Regret, and with the return of surplus application deposits to such allottees as have received only a partial allotment, the amounts paid by such applicants being in excess of the sum due on both application and allotment, as described in the chapter dealing with allotments. In all these cases of allotments, calls, and repayments, unbusiness-like people are always to be found who neglect to pay their different instalments, or, on the other hand, fail to present their warrants to claim the sums due to them. Wherever such instances arise, it is well not to delay the closing of the subsidiary bank accounts, but to have the balances transferred as they stand, after having been reconciled with the different accounts in the company's cash book, and to make allowance for such calls, etc., as may be outstanding by making special accounts for the purpose for calls unpaid on the one hand, and for unclaimed refundments of application deposits on the other.

Except for public issues, such a system of recording capital receipts would be quite unnecessary. In small private concerns, or where only a comparatively small number of shareholders is involved, all the entries may be made to the debit of the General Cash Book. The totals received under the head of allotments and calls for each class of share are posted to the credit of share capital account in the Private Ledger, whilst the individual payment against each member's

name is credited to that member's account, as will be shown in the chapter dealing with those books.

SUBSIDIARY CASH BOOK (SHARE ACCOUNTS)

Date.	No. of Allotment Letter or Call Notice.	Name of Member.	Folio of Allotment List or Call Register.	Folio and No. of Share Ledger.	Amount Paid.			Amounts to General Cash Book.		
19.. Aug. 17		*Final Call a/c (Ordinary)*								
	569	Baxter, G.W. O.	150	$\frac{3}{19}$	£50	0	0			
	125	Hunter, C.	19	$\frac{1}{175}$	12	10	0			
	169	Maxwell, Mrs. O.	89	$\frac{2}{38}$	100	0	0			
	171	Chalmers, J.	4	$\frac{4}{123}$	25	0	0	187	10	0
		Final Call (Prefce)								
	15	Bentwood, A.	15	$\frac{3}{10}$	25	0	0			
	29	Sackwell, Mr. H.	7	$\frac{3}{95}$	75	0	0	100	0	0
		First Call (Prefce)								
	58	Hassell, G.	58	$\frac{1}{19}$	100	0	0			
	169	Maxwell, Mrs. O.	89	$\frac{2}{38}$	100	0	0	200	0	0
		Allotment Prefce.								
	35	Harridge, I. (Coll.)	28	$\frac{3}{135}$	25	0	0	25	0	0
		Allotment (Ord.)								
	136	Harridge, I. (Coll.)	168	$\frac{3}{199}$	12	10	0	12	10	0

CHAPTER XII

THE FORFEITURE OF SHARES

THE conditions under which shares are forfeited are imposed as a penalising measure against delinquent members who fail in their obligations as to payment of any sums due on their shares. These conditions are always provided for in the articles of association, and any steps taken in this direction must be in strict conformity with those provisions. Regard, therefore, must be had to the particular powers granted to the board before applying this procedure in practice. It will be found in the majority of cases that the points dealt with in this chapter are in accord with the general custom. Articles of Association do not, as a rule, depart from the clauses of Table "A" in regard to forfeiture; the reader may therefore direct his attention to those particular clauses. The Consolidation Act itself contains no provisions for such a step, except, of course, that the "Table" is really an embodiment of the statute when the measures within that table are accepted by companies incorporated under the Act, or if they are formed with articles which contain the same or similar powers.

The circumstances to cause a forfeiture may usually be found to comprise the following points—

(i) A shareholder who fails to pay any call or allotment on the day fixed for payments may be served with a notice from the directors requiring him to pay such instalment, to which may be added interest at a certain rate provided in the Articles, for such a period as the instalment may be overdue.

(ii) The notice is to name a day, usually not less than fourteen days from the date of the notice, on which the overdue payments are to be made by the defaulter, and to state that upon the expiration of such a period, the shares, if the default continues, will become liable to forfeiture.

(iii) Should the requirements of the notice not be satisfied, the shares may thereupon, by resolution of the Board, be made forfeit.

(iv) The Board are at liberty to dispose of the shares by sale or otherwise, in any manner as may seem fitting, or it is within their power to annul such forfeiture upon conditions which may be the most expedient.

(v) The holder of the shares which have been forfeited, ceases to be a member in respect of those shares, but is nevertheless still liable to the company for all unpaid instalments upon them.

(vi) A statutory declaration is to be made by a director or secretary of the company stating in writing that a share or shares have been forfeited, and giving all the circumstances of the case as to service of notice or notices.

(vii) The forfeiture may be exercised through the non-payment of any sum due upon the shares, even as regards premiums due upon them.

Forfeited shares become the absolute property of the company, and the directors may reissue them to any person who is prepared to take them up upon such conditions as they may consider necessary to impose, but these conditions must be so formulated that the sum demanded from the purchaser (when added to that already paid by the defaulting member) is not less than the nominal value of the shares, and any premium to which they may be subject. Thus, if a £1 share has been forfeited upon which only 10s. had been paid, the board may not reissue the share for a less sum than 10s. to satisfy the nominal value of that share. The person becoming possessed of the reissued share will consequently reap the benefit of the defaulter's delinquence, as he can claim full title to the share, and exercise all the rights and privileges of a member in common with other shareholders.

When a company exercises its powers in regard to forfeiture, it is more usually found that the forfeited shares are reissued at their full nominal value. The money paid upon

those shares by the defaulter thus becomes a profit to the company, and may be taken to credit of a reserve account, but, as a matter of fact, there is no general rule of law against such a surplus being taken to credit of profit and loss and distributed in dividend.

Suppose the Sigma Company, Ltd., has issued £1 ordinary shares: 2s. 6d. on application, 7s. 6d. on allotment, and the balance in two calls of 5s. each at intervals of one month after the date of issuing the letters of allotment. A. B. C. applies for 100 shares, which are allotted to him. He duly pays the amount demanded for the allotment, representing, at that stage, 10s. per share. The calls subsequently become due, notice of both being given, but they are not paid. Other measures are adopted without avail, and the directors decide on the forfeiture of the shares, which, being quoted on the Exchange at a premium of 17s. 6d., the directors decide to offer at the market rate of 37s. 6d. This offer is accepted by X. Y. Z., who accordingly pays £187 10s. when the shares are allotted to him. To record this in the books the following entries in the journal must be made. We must observe

JOURNAL.

Ordinary Share Capital *Dr.*	P.L.	£100	0	0				
To Sundries—								
First Call Account ..	P.L.				£25	0	0	
Second " " ..	P.L.				25	0	0	
Forfeited Shares Account	P.L.				50	0	0	
Being 100 Ordinary Shares forfeited by A. B. C. as per minute No. 159, amounts due on first and second calls being unpaid.								
Sundries— *Dr.*								
Forfeited Shares Account..	P.L.	50	0	0				
X. Y. Z.		187	10	0				
To Sundries—								
Share Capital Account ..	P.L.				100	0	0	
Premium on Shares ..					137	10	0	
For the reissue of 100 Ordinary Shares (forfeited by A. B. C.) to X. Y. Z. in full at 37s. 6d. per share.								

in passing, however, that the full amounts due on the total issue of the shares will have been previously made to represent the company's total liability in respect of that particular class of share ; it must be remembered that the forfeited shares being reissued, that liability remains undisturbed. We consequently debit ordinary shares account and credit calls account to extinguish the balance there, and credit forfeited shares account for the amount paid and forfeited by the defaulter.

This will result in the following ledger accounts. We must recollect that X. Y. Z. pays the amount demanded of him —£187 10s. This, entered from the cash book, will close his account, the cash being credited.

LEDGER

ORDINARY SHARE CAPITAL ISSUED

To Sundries ..	J.	£100	0	0	By Application and Allotment A/cs		100000	0	0
					By Sundries ..	J.	100	0	0

FIRST CALL ORDINARY SHARES

To Share Capital A/c, 5s. per share..	J.	£25000	0	0	By Cash ..	C.B.	£24975	0	0
					,, Ordinary Share Capital A/c ..	J.	25	0	0
							£25000	0	0

SECOND CALL ACCOUNT

To Share Capital A/c 5s. per share called up..	J.	£25000	0	0	By Cash ..	C.B.	£24975	0	0
					,, Share Capital A/c ..	J.	25	0	0
		£25000	0	0			£25000	0	0

FORFEITED SHARES (ORDINARY) ACCOUNT

To Sundries ..	J.	£50	0	0	By Ordinary Shares ..		£50	0	0

PREMIUMS ON SHARES (FORFEITED) ACCOUNT

						By Sundries ..	J.	£137	10	0

X. Y. Z.

	To Sundries ..	J.	£187	10	0		By Cash	C.B.	£187	10	0

The account for premiums on shares will, as we have explained, retain permanently the amount of £137 10s. as a credit in the account, the item being shown separately on the liabilities side of the balance sheet. The result of the above transactions shows the company to have benefited by this sum, which has had the sole effect of swelling the bank balance.

The account opened in the share ledger and register of members in the name of A. B. C. will be closed in respect of the forfeiture by transferring the 100 shares to another account in the name of X. Y. Z., wherein a note will be made, giving the circumstances attendant upon the conditions under which he acquired his holding.

Information as to shares which have been forfeited is required in the annual return of members (*q.v.*).

CHAPTER XIII

OPENING THE PRIVATE ACCOUNTS

THE principles involved under this head do not vary in any very material degree from those of a private concern. The circumstances attending the issue of capital and debentures arising out of the incorporation of a company are, however, of a somewhat more extended character, and necessitate a considerable amount of elaborate detail. As regards the acquirement of property by the company the procedure to be followed is practically identical with that of a business owned by a private individual or a partnership. In both cases a very considerable amount of prudence, foresight, and circumspection must be displayed in order that the accounts forming the initial records of the concern are so disposed as to allow of suitable co-ordination between the private books and those of a subsidiary character. The special conditions which underlie the practice of issuing shares to the public, and also, in the case of private companies, require such treatment at the hands of the skilled accountant as is not demanded in any other sphere of his activities. It is not too much to say that initial entries in the private books relating to transactions as to share capital, debenture issues, acquirement of property, and the concomitant adjustments with the vendors, call for the highest skill and attention if this stage of the work is to be accomplished to the best advantage and with a minimum of trouble.

Although the conditions under which the multitudes of companies are promoted may be said to vary to an almost infinite extent, we propose in this chapter to consider the abstract and material points contained within two or three examples of typical prospectuses; and from these instances of company promotion, we shall, it is hoped, sufficiently illustrate the general principles which can be applied to the great majority of cases coming within the reader's experience.

In general, it may be said that nearly all companies are promoted for either one or other of the two following purposes—

(*a*) To acquire an existing business as a going concern, or,

(*b*) To purchase some undeveloped property or patent rights, or to promote some public service.

The first of the two instances is, perhaps, the more frequent, and generally involves businesses of a manufacturing or commercial character. Such a one will be fittingly represented by the following extracts from its prospectus—

The Theta Company, Ltd., has been incorporated with a share capital of £100,000 divided into 50,000 5% Cumulative Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each, in addition to which it is proposed to issue £30,000 4½% Mortgage Debentures in bonds of £25 each, the debentures to carry a charge over the whole of the property to be acquired, a trust deed is to be prepared in the names of Lord Ditcham and Sir Anthony O'Toole as trustees for the debenture holders. The company is formed to acquire the business and undertaking of Messrs. Drummond and Maclure, Engineers and Ironfounders of Ardnamuich. The assets of the firm are as follows—

	£	s.	d.
Freehold land and buildings	36440	0	0
Leasehold property, 38 years to run	1560	0	0
Machinery and Plant	15348	10	6
Loose tools and trade utensils	3169	10	3
Book debts, all good	28175	5	4
	84693	6	1
To which could be added the sum of £9,154 for Trade Marks, Patterns, and designs. It is agreed, however, to consider this as part of the Goodwill which is determined at	25306	13	11
	110000	0	0

By the terms of the contract for purchase of the business it is provided that this sum of £110,000 shall be paid in consideration of the purchase of the business in the following manner—

25000 in £1 Preference Shares
25000 in £1 Ordinary Shares
60000 in Cash.

£110000

It is proposed to issue the remaining preference and ordinary shares and the debentures to the public at par on the following terms—

25,000 £1 Ordinary, and 25,000 £1 Preference Shares.
2s. 6d. on application.
2s. 6d. ,, Allotment.
7s. 6d. ,, First call 1 month after allotment
7s. 6d. ,, Final call 2 months ,, ,,

The £30,000 4½% Debentures are offered as follows—
12½% on application.
87½% for balance on allotment.

The prospectus on being duly promulgated results in a subscription for 40,175 preference shares and 32,160 ordinary shares, whilst the debentures are oversubscribed to the amount of £38,150. The allotment is effected to the extent of the issue, the surplus applications are returned, and allotment letters and call notes are dispatched in due time, we must assume for the purpose of this example that we have arrived at the stage when the full instalments have been paid, we may thus proceed with the task of illustrating the requisite entries in the financial books.

It will be best to take the transactions which are to appear in the cash book first, the entries into which will be made from a subsidiary book, which will record the various payments of individual shareholders for calls and allotments.

CASH ACCOUNT

19.. Aug. 5	To Preference Shares Application and Allotment A/c—for applications received on 40,175 Preference Shares	4	5021	17	6	19... Aug. 17	By Preference Shares Application and Allotment A/c—Amounts oversubscribed £1896 17 6 Less amounts retained on A/c of allotments £1365 15 0 Amount refunded	4	531	2	6
„ 5	„ Ordinary Share Application and Allotment A/c — for applications received on 32,160 Ordinary Shares	5	4020	0	0	Aug. 19	By Ordinary Shares Application and Allotment A/c—Amounts oversubscribed £895 0 0 Less retained on allotment due 685 10 0 Amount refunded	5	209	10	0
„ 5	„ Debenture A/c—Amounts received on application..	6	8518	15	0	Aug. 20	By Debentures A/c—For amounts oversubscribed £4768 15 0 Less retained on account of allotments £3950 17 6 Net repayment	6	817	17	6

CASH ACCOUNT

Date		Fol.	£	s.	d.	Date		Fol.	£	s.	d.
19.. Aug. 31	To Preference Shares Application and Allotment A/c — Amounts received as balances on Allotment ..	4	1759	5	0	19.. Oct. 31	By Vendors' A/c— Cash consideration paid to Maclure & Macdonald as per agreement for sale and purchase of business	11	60000	0	0
" 31	To Ordinary Shares Application and Allotment A/c — Amounts received for balances due on allotment ..	5	2439	10	0						
Sept. 3	To Debentures A/c — Amounts received for balances due on allotment (in final payment)	6	22299	2	6						
Sept. 15	To Preference Shares First Call A/c — Amounts received on call due ..	7	9375	0	0						
Sept. 18	To Ordinary Shares First Call A/c — Calls received.. ..	8	9375	0	0						
Oct. 25	To Preference Shares Second Call A/c —Calls received.. ..	9	9375	0	0						
Oct. 30	To Ordinary Shares Second Call A/c —Calls received.. ..	10	9375	0	0	Oct. 31	By Balance c/d ..		20000	0	0
			£81558	10	0				£81558	10	0
Oct. 31	To Balance b/d		20000	0	0						

Before passing on from the cash account, it is as well to remind our readers that the amounts appearing above must, as regards the receipts and payments affecting shares and debentures, be made to accord with the totals shown in different books kept for the purpose of enumerating the individual payments of members and debenture holders. The amounts refunded to subscribers will represent probably payments of two classes for each class of shares or debentures; those who receive a partial allotment and those whose

applications have met with no success at all. The aggregate amount paid out by reason of these letters of regret, as applied to preference or ordinary shares, and the debentures, must be reconciled with the totals of the applications and allotments list in each case. The amounts retained on account of allotment moneys which become due must be deducted from the surplus application money. Consequently the totals of the allotment letters will be less by this amount than they would have been had the whole of the surplus application money been returned. The amounts received for calls must agree with the totals shown in the calls book.

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	Preference Shares Application and Allotment Account *Dr.*	4	6250	0	0			
	To Preference Share Capital a/c	1				6250	0	0
	Being 5s. per share due on 25,000 Preference Shares issued by the prospectus dated August 1st, 19..							
	Ordinary Shares Application and Allotment Account .. *Dr.*	5	6250	0	0			
	To Ordinary Share Capital a/c	2				6250	0	0
	Being 5s. per share due on 25,000 Ordinary Shares issued by prospectus dated August 1st, 19..							
	Debenture Application and Allotment Account .. *Dr.*	6	3750	0	0			
	To Debentures	3				3750	0	0
	Being amount due on £30,000 Debentures at 12½ % by the above-named prospectus.							
	Preference Shares First Call a/c *Dr.*	7	9375	0	0			
	To Preference Share Capital	1				9375	0	0
	Being amount due on 25,000 Preference Shares at 7s. 6d. per share.							
	Ordinary Shares First Call a/c *Dr.*	8	9375	0	0			
	To Ordinary Share Capital ..	2				9375	0	0
	Being amount due on 25,000 Ordinary Shares at 7s. 6d. per share.							

JOURNAL.

Debentures Application and Allotment Account *Dr.*	6	26250	0	0			
To Debentures	3				26250	0	0
Being the balance due on £30,000 Debentures at 87½ %.							
Preference Share Final Call Account .. .. *Dr.*	9	9375	0	0			
To Preference Share Capital	1				9375	0	0
Being the second and final call on 25,000 Preference Shares at 7s. 6d. per share.							
Ordinary Share Final Call Account .. .. *Dr.*	10	9375	0	0			
To Ordinary Share Capital	2				9375	0	0
Being the second and final call due on 25,000 Ordinary Shares at 7s. 6d. per share.							
Sundries— *Dr.*							
To the Vendors	11				110000	0	0
Goodwill (trade marks, designs, patents)	12	25306	13	11			
Freehold property and buildings..	13	36440	0	0			
Leasehold property ..	14	1560	0	0			
Machinery and plant ..	15	15348	10	6			
Loose tools and trade utensils	16	3169	10	3			
Sundry Debtors	√	28175	5	4			
(The last item is to be posted to the debit of the several accounts to be opened in the debtors' or sales ledgers for each customer taken over; also to the debit of an adjustment account should the ledger be designed on the self-balancing principle.)							
Being the property acquired by the company under the agreement for sale and purchase stated in the prospectus dated August 1st, 19..							
The Vendors .. .. *Dr.*	11	50000	0	0			
To Sundries—							
Preference Share Capital a/c	1				25000	0	0
Ordinary Share Capital a/c	2				25000	0	0
For the issue of 25,000 Preference and 25,000 Ordinary Shares in part consideration for the above-named property.							

Thus far the foregoing cash and journal entries deal with the transactions arising out of the initial stages of the company's career. In the main the items shown are aggregations of a multitude of minor dealings with the members and debenture holders on the one hand, and the vendors on the other. To complete the task of opening the private accounts we shall now proceed with the ledger accounts, ultimately drawing up a trial balance to show the result so far as the promotion has been concerned.

LEDGER

PREFERENCE SHARE CAPITAL ACCOUNT (1)

Dr. *Cr.*

	To Balance ..		£50000	0	0	19.. Aug. 1	By Application and Allotment A/c ..	J.	£6250	0	0
							By First Call A/c	J.	9375	0	0
							„ Final Call A/c	J.	9375	0	0
							„ Vendors' A/c	J.	25000	0	0
			£50000	0	0				£50000	0	0
							By Balance ..		50000	0	0

ORDINARY SHARE CAPITAL ACCOUNT (2)

Dr. *Cr.*

	To Balance ..		£50000	0	0		By Application and Allotments	J.	£6250	0	0
							„ First Call A/c	J.	9375	0	0
							„ Final Call A/c	J.	9375	0	0
							„ Vendors' A/c	J.	25000	0	0
			£50000	0	0				£50000	0	0
							By Balance ..		50000	0	0

4½ % DEBENTURES ACCOUNT (3)

Dr. *Cr.*

	To Balance down		£30000	0	0		By Application and Allotments	J.	£3750	0	0
							„ Do. do.	J.	26250	0	0
			£30000	0	0				£30000	0	0
							By Balance ...		30000	0	0

PREFERENCE SHARES APPLICATION AND ALLOTMENTS (4)

Dr. *Cr.*

To Cash refunded	C.B.	£531	2	6	By Cash subscribed ..	C.B.	£5021	17	6
,, Preference Share Capital	J.	6250	0	0	,, Cash allotments balances due ..	,,	1759	5	0
		£6781	2	6			£6781	2	6

ORDINARY SHARES APPLICATION AND ALLOTMENTS (5)

Dr. *Cr.*

To Cash refunded	C.B.	£209	10	0	By Cash subscribed ..	C.B.	£4020	0	0
,, Ordinary Share Capital	J.	6250	0	0	,, Cash allotments balances due ..	C.B.	2439	10	0
		£6459	10	0			£6459	10	0

DEBENTURE APPLICATION AND ALLOTMENTS (6)

Dr. *Cr.*

To Cash refunded	C.B.	£817	17	6	By Cash subscribed ..	C.B.	£8518	15	0
,, Debentures A/c	J.	3750	0	0	,, Cash final balances due on allotment	C.B.	22299	2	6
,, Do. do.	J.	26250	0	0					
		£30817	17	6			£30817	17	6

PREFERENCE SHARE FIRST CALL ACCOUNT (7)

Dr. *Cr.*

To Preference Share Capital	J.	£9375	0	0	By Cash	C.B.	£9375	0	0

ORDINARY SHARE FIRST CALL ACCOUNT (8)

Dr. *Cr.*

To Ordinary Share Capital	J.	£9375	0	0	By Cash	C.B.	£9375	0	0

PREFERENCE SHARE SECOND (FINAL) CALL ACCOUNT (9)

Dr. *Cr.*

To Preference Share Capital A/c	J.	£9375	0	0	By Cash	C.B.	£9375	0	0

ORDINARY SHARE SECOND (FINAL) CALL ACCOUNT (10)

Dr.									Cr.
	To Ordinary Share Capital	J.	£9375	0	0	By Cash	C.B.	£9375	0	0

THE VENDORS, MESSRS. MACLURE & MACDONALD (11)

Dr.										Cr.
	To Cash	C.B.	£60000	0	0	By Sundries ..	J.	110000	0	0
	,, Sundries ..	J.	50000	0	0					
		£	110000	0	0		£	110000	0	0

GOODWILL, TRADE MARKS, DESIGNS, AND PATENTS (12)

Dr.										Cr.
	To The Vendors	J.	£25306	13	11					

FREEHOLD PROPERTY AND BUILDINGS (13)

Dr.										Cr.
	To The Vendors	J.	£36440	0	0					

LEASEHOLD PROPERTY (14)

Dr.										Cr.
	To The Vendors	J.	£1560	0	0					

MACHINERY AND PLANT (15)

Dr.										Cr.
	To The Vendors	J.	£15348	10	6					

LOOSE TOOLS AND TRADE UTENSILS (16)

Dr.										Cr.
	To The Vendors	J.	£3169	10	3					

N.B.—The item for Sundry Debtors, £28,175 5s. 4d., will, of course, be entered in extended form in the Journal and posted to an account in the debtors' ledger for each customer.

The construction of a balance sheet from the trial balance of the Theta Company, Ltd., on the next page, will show the assets and liabilities in the same order; the company, as a result of the promotion, being in possession of working capital to the extent of £20,000.

TRIAL BALANCE

Ledger folio		Dr. £	s.	d.	Cr. £	s.	d.
1	Preference Share Capital ..				£50000	0	0
2	Ordinary Share Capital ..				50000	0	0
3	Debentures				30000	0	0
12	Goodwill, trade marks, designs, and patents	25306	13	11			
13	Freehold property and buildings	36440	0	0			
14	Leasehold property	1560	0	0			
15	Machinery and plant.. ..	15348	10	6			
16	Loose tools and trade utensils	3169	10	3			
Sales Ledgers	Sundry Debtors	28175	5	4			
Cash Book	Cash at bank	20000	0	0			
		130000	0	0	130000	0	0

The problem we have just considered in detail is free from any side issues such as unpaid calls, and it has been also assumed that the whole of the authorised capital was offered for subscription. This is, perhaps, unusual, as it more frequently happens that even for comparatively long periods of time after the calls are due, some remain unpaid, and as regards the issue of shares, most companies hold over a portion of the nominal capital for future contingencies. In such instances the procedure we have outlined would be followed, with the exception of designating the two share capital accounts showing credits of £50,000 each, as " issued," preference, or ordinary share capital, whilst in the balance sheet, above these accounts, would be given the authorised or nominal share capital of the company, with the denominations of the different classes of shares and the numbers and amounts of each. Where amounts remain unpaid on shares, the amounts of cash received under each head will be so much less, and these amounts must be shown upon the balance sheet by deducting them from the full value of the shares issued.

It will perhaps be advantageous, at this juncture, if we amplify the example of the Theta Company, Ltd., in such a manner as will suitably illustrate the procedure to be followed, supposing either or both classes of the shares had

been issued at a premium instead of at their par value. The assumption is that the whole of the ordinary shares—50,000 at £1 each—are to be issued as fully paid to the vendors instead of 25,000 of each class, and that the 50,000 £1 preferred shares are to form the public issue, but that they shall be subscribed for at the rate of 22s. 6d. per share—a premium of 2s. 6d.—the mode of payments to be made by the public being the same except that the final call will be 10s. per share, or 7s. 6d. plus 2s. 6d. for the premium to be paid upon each. The different instalments will be as follows—

2s. 6d.	on application.
2s. 6d.	on allotment.
7s. 6d.	due as a first call, and
10s. 0d.	final call (including the premium).
22s. 6d.	

CASH BOOK

		£	s.	d.			£	s.	d.
To Preference Share Application and Allotment A/c—For applications on 80,350 shares	1	£10043	15	0	By Preference Share Application and Allotment A/c—Amounts over-subscribed £3793 15 0 Less retained on A/c of allotment 2731 10 0 Net refunded .. .	3	£1062	5	0
To Preference Shares Application and Allotment A/c — Amounts received for balances on allotment ..	3	3518	10	0	By Balance		56250	0	0
To Preference Shares First Call A/c — Amounts received on calls due ..	4	18750	0	0					
To Preference Shares Final Call A/c — Amounts received on call due ..	5	18750	0	0					
To Premium on Preference Shares received in conjunction with final call	5	6250	0	0					
		£57312	5	0			£57312	5	0

We shall find that the cash book is affected in precisely the same way as in the problem just dealt with, with this variation; the amounts will be double for the first three instalments, the oversubscription remaining the same; whilst the last will be increased by a third as it must include the amounts due upon the premium. The ultimate result, as regards the cash account will be that there remains a working capital £6,250 in excess of that which we arrived at in the trial balance. The journal entries narrating the transactions with the vendors and the allotment of the shares credited as fully paid have been dealt with fully earlier in the present chapter, so that it is now necessary only to deal with those entries in the cash book, journal, and ledger relating solely to the preference share capital.

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	Preference Share Application and Allotment Account *Dr.*	3	12500	0	0			
	To Preference Share Capital	1				12500	0	0
	Being 5s. per share due on allotment of 50,000 Preference Shares issued by prospectus dated August 1st, 19..							
	Preference Shares First Call Account .. .. *Dr.*	5	18750	0	0			
	To Preference Share Capital	1				18750	0	0
	Being amount due for call of 7s. 6d. per share as by the terms of the prospectus.							
	Preference Shares Final Call and Premium Account *Dr.*	5	25000	0	0			
	To Sundries—							
	Preference Share Capital..	1				18750	0	0
	Premium on Preference Shares	2				6250	0	0
	Being the sum of 10s. per share due on 50,000 Preference Shares, 7s. 6d. for final call and 2s. 6d. premium per share as by the prospectus.							

LEDGER

PREFERENCE SHARE CAPITAL (1)

Dr.									Cr.
To Balance c/d		£50000	0	0	By Application and Allotment A/c ..	J.	£12500	0	0
					By First Call A/c	J.	18750	0	0
					By Final Call A/c	J.	18750	0	0
		£50000	0	0			£50000	0	0
					By Balance b/d		50000	0	0

PREMIUM ON PREFERENCE SHARES (2)

Dr.									Cr.
					By Premium on Shares ..	J.	£6250	0	0

PREFERENCE SHARE APPLICATION AND ALLOTMENTS (3)

Dr.									Cr.
To Cash returned to subscribers	C.B.	£1062	5	0	By Cash from subscribers..	C.B.	£10043	15	0
To Preference Share Capital	J.	12500	0	0	,, Cash from allottees ..	C.B.	3518	10	0
		£13562	5	0			£13652	5	0

PREFERENCE SHARE FIRST CALL ACCOUNT (4)

Dr.									Cr.
To Preference Share Capital	J.	£18750	0	0	By Cash	C.B.	£18750	0	0

PREFERENCE SHARES FINAL CALL AND PREMIUM ACCOUNT (5)

Dr.									Cr.
To Sundries ..	J.	£25000	0	0	By Cash, Final Call	C.B.	£18750	0	0
					,, Cash Premiums ..	,,	6250	0	0

BALANCE SHEET

LIABILITIES.					ASSETS.				
To 50,000 Preference Shares of £1 each		£50000	0	0	By Cash		£56250	0	0
To Premiums on Preference Shares ..		6250	0	0					
		£56250	0	0			£56250	0	0

The modification of the original problem, designed for the purpose of showing the manner of dealing with the initial transactions of The Theta Company, Ltd., will place a somewhat different complexion on the ultimate result by reason of the issuing of shares at a premium, a practice by no means rare among wealthy and prosperous businesses. The premiums thus obtained are not infrequently utilised and ultimately partially or wholly written off as against the cost of promotion, or preliminary expenses, where these are not borne by the vendors. But to do this, the express permission of the shareholders in general meeting is invariably obtained.

It is much more usual, however, that premiums arising from the issue of share capital are permanently retained, figuratively speaking, on the liabilities side of the balance sheet. Should the premiums ever be used for the creation of a reserve fund, it will be necessary in all subsequent balance sheets where the reserve fund containing such an amount appears, to state specifically that those premiums to a stated amount are comprised in the reserve. This precaution must be observed to prevent any moneys derived out of an issue of shares in the shape of premiums from being ear-marked for the purpose of paying out of profits from a reserve. It is very questionable indeed whether premiums could, under any conditions, be regarded as a profit to the company issuing the shares upon which such premiums have arisen. In any case such a proceeding would undoubtedly be very unsound policy.

For private companies, the problem we have given in the foregoing pages would not be so elaborate as regards the accounts which deal with the different instalments on shares. In other respects the procedure would be the same. Private companies are, for the most part, promoted for the purpose of carrying on an existing business, the members of the company being mainly the proprietors of the business and their families. Recent legislation now permits two or more persons to form a private company. This has resulted

in a marked increase in the number of company promotions on a small scale. As contrasted with the somewhat pretentious scheme of company promotion which we have illustrated, it will be, perhaps, advisable to quote the following example as typical of the private company flotation.

Ernest Alexander, builder and contractor, has, with his two sons, William and George, carried on business as partners. The undertaking is an old established and prosperous concern ; they have decided to adopt the advantage of limited liability and accordingly propose to convert the partnership into an incorporated company. The claims of the three partners are as follows : one-half to the father, and a quarter each to the two sons. Their balance sheet at the time of the proposed formation is as follows—

ALEXANDER & SONS, BUILDERS AND CONTRACTORS

BALANCE SHEET

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Ernest Alexander				Freehold Land	1000	0	0
Capital Account	5000	0	0	Buildings ..	2100	0	0
William Alexander				Machinery and			
Capital Account	2500	0	0	Fixtures ..	1500	0	0
George Alexander				Loose Tools and			
Capital Account	2500	0	0	Plant ..	750	0	0
Trade Creditors	1569	0	0	Stores & Materials	1700	0	0
				Sundry Debtors	2750	0	0
				Cash	1769	0	0
	£11569	0	0		£11569	0	0

This balance sheet has been arrived at after a thorough review of their financial position, and after writing down the value of their fixed assets to the value stated from figures given by independent valuers, the respective capital accounts of the partners having been adjusted to correspond with the altered conditions. They desire to form a company to acquire this business, and seek authorisation for a nominal capital of £15,000 in 3,000 shares of £5 each. The company is duly incorporated and it is decided to issue 2,400 shares,

or £12,000; the business to be taken over as a going concern acquiring the assets as they stand in the balance sheet of the partnership, the company to satisfy the claims of the sundry creditors and to pay the cost of formation. Ernest Alexander is to be allotted 1,000 shares, William Alexander 500 shares and George Alexander 500 shares. They further agree to take up and pay for 400 shares, 200 shares by the father and 100 shares by each of the sons, this additional cash to be utilised in developing and improving the existing buildings and plant. As before, we shall describe first the cash book entries, though, from a theoretical standpoint the journal should receive prior consideration. In practice, this book, for some purposes, may be regarded as more in the nature of a convenience than a necessity. It is nevertheless indispensable in opening and closing the books of any business. Journal entries dealing with the capital issued for payment in full and by one instalment, as in this instance, may be dispensed with. The mere entry of the cash received in the cash book as shown will suffice. A reference to the minute authorising the allotment must be given, however.

CASH BOOK

19..						19..				
Sept. 1	To Alexander & Sons—Cash balance taken over	J.	£1769	0	0		By Balance c/d	£3769	0	0
,, 2	,, E. Alexander For 200 shares allotted by minute No. 5.	1	1000	0	0					
,, 5	,, W. Alexander For 100 shares allotted by above-named minute ..	1	500	0	0					
,, 11	,, Geo. Alexander .. .. For 100 shares allotted by above-named minute.	1	500	0	0					
			£3769	0	0			£3769	0	0
	To Balance b/d		3769	0	0					

The first of the above items will be posted from the journal as shown in the entries which follow, the three payments for shares being posted direct to Share Capital Account.

JOURNAL

The Vendors (Alexander & Sons) .. .. *Dr.*	2	10000	0	0			
To Share Capital	1				10000	0	0
For the issue of 2,000 shares of £5 each as follows, in accordance with the allotment made by minute No. 6 and the agreement for sale and purchase dated Sept. 1st, 19..— Ernest Alexander, 1,000 shares of £5 each .. £5000 0 0 William Alexander, 500 shares of £5 each .. 2500 0 0 George Alexander, 500 shares of £5 each .. 2500 0 0 £10000 0 0							
Sundries— .. .. *Dr.*							
To the Vendors (Alexander & Sons)	2				11569	0	0
Freehold Land	3	1000	0	0			
Buildings	4	2100	0	0			
Machinery and fixtures ..	5	1500	0	0			
Loose tools and plant ..	6	750	0	0			
Stores and materials.. ..	7	1700	0	0			
Sundry Debtors	S.L.	2750	0	0			
Cash	C.B.	1769	0	0			
For acquirement of the above property under the agreement between the company and the vendors, dated Sept. 1st, 19..							
The Vendors (Alexander & Sons) .. .. *Dr.*	2	1569	0	0			
To Sundry Trade Creditors	B.L.				1569	0	0
Being the amount of trade liabilities taken over and agreed to be paid by the company.							

LEDGER

SHARE CAPITAL ISSUED (1)

Dr. *Cr.*

						19..						
						Sept.	2	By E. Alexander	C.B.	£1000	0	0
								,, W. Alexander	,,	500	0	0
								,, G. Alexander	,,	500	0	0
								,, The Vendors	J.	10000	0	0
										£12000	0	0

THE VENDORS, ALEXANDER & SONS (2)

Dr. *Cr.*

19..						19..					
Sept. 1	To Share Capital	J.	£10000	0	0	Sept. 1	By Sundries ..	J.	£11569	0	0
	,, Sundry Trade Creditors	J.	1569	0	0						
			£11569	0	0				£11569	0	0

FREEHOLD LAND (3)

Dr. *Cr.*

19.. Sept. 1	To The Vendors	J.	£1000	0	0						

BUILDINGS (4)

Dr. *Cr.*

19.. Sept. 1	To The Vendors	J.	£2100	0	0						

MACHINERY AND FIXTURES (5)

Dr. *Cr.*

19.. Sept. 1	To The Vendors	J.	£1500	0	0						

LOOSE TOOLS AND PLANT (6)

Dr. *Cr.*

19.. Sept. 1	To The Vendors	J.	£750	0	0						

STORES AND MATERIALS (7)

Dr. *Cr.*

19.. Sept. 1	To The Vendors	J.	£1700	0	0						

The entries in the journal corresponding to Sundry Trade Debtors and Creditors will be made in detail in the sale and bought ledgers respectively, whilst as regards the cash item in the second journal entry it will be seen that this has been debited to cash account. It must also be remembered that the cash book, although a separate volume entirely, really represents an account in the same degree as any account appearing in the ledger. Technically, the cash book or cash account is a part of the ledger, but for convenience of entry it is kept apart.

If the accounts of the company are to be kept on the self-adjustment, or self-balancing principle, the items of trade debtors and creditors will be posted to accounts in the private or nominal ledgers, to be termed "sale ledger adjustment account" or "bought ledger adjustment account," as the case may be ; and thus will form the nucleus of the self-balancing principle which will be described in another chapter.

The affairs of the newly-formed company, which we have just considered, will appear as shown in the balance sheet drawn up from the entries we have made.

ERNEST ALEXANDER AND SONS, LTD.

BALANCE SHEET, 11th September, 19..

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Nominal Capital				By Freehold Land	1000	0	0
3,000 shares of £5				,, Buildings ..	2100	0	0
each	15000	0	0	,, Machinery and			
				Fixtures ..	1500	0	0
To *Issued Capital*				,, Loose Tools and			
2,400 shares of £5				Plant ..	750	0	0
each, fully paid..	12000	0	0	,, Stores and			
,, Sundry Creditors	1569	0	0	Materials ..	1700	0	0
				,, Sundry Debtors	2750	0	0
				,, Cash ..	3769	0	0
	£13569	0	0		£13569	0	0

Comparing the balance sheet of the company with that of the partnership firm from which the business was acquired, it will be observed that the accounts dealing with fixed and

floating assets, with the exception of cash, are the same. The capital accounts of the partners disappear, and in their stead are shown liabilities of the company in the form of issued capital in bulk, with the addition of the £2,000 paid in cash, which corresponds to the increase in the cash account amongst the assets. The individual accounts of the shareholders will be entered up by making subsidiary entries from the cash book and journal into the register of members and share ledger, which all companies, private or otherwise, have to keep.

The opening of the books following upon the amalgamation of two or more companies will be upon similar lines to that given in the first example of this chapter, with the exception that in place of one vendor there will be a vendor in the person of the liquidator of each of the companies about to be merged into one concern. Such problems will present no difficulty if it be remembered that transactions with each liquidator will follow upon precisely the same basis as though there were a single vendor.

In instances where a large company desires, and has contracted for, the absorption of the whole of the undertaking owned by a smaller competitor, this will, of course, only involve the liquidation of the smaller concern, the purchasing company either issuing unissued capital or obtaining powers for further authorised capital for the purpose of making the purchase. The transaction in this instance is also carried out in precisely similar circumstances to that employed for a single vendor, an account being opened for the liquidator of the smaller company about to be absorbed.

The treatment of accounts in amalgamations and absorptions is more fully discussed in Chapter XXIII on Amalgamations and Reconstructions.

CHAPTER XIV

SELF-BALANCING LEDGERS AND ADJUSTMENT ACCOUNTS

THE businesses owned by companies where all the transactions, apart from the records of their shareholders, are kept within the space of one general ledger, in which is recorded the whole of the assets, liabilities, expenditure, and revenue, are very few and far between. A company must, indeed, be of extremely modest dimensions if its trading does not need at least a private ledger and a general or personal ledger. We shall doubtless be aiming at the requirements of our readers better if we discuss a situation involving private, nominal, sales, and bought ledgers. It is probable that the majority of cases require that the sales ledgers—perhaps the bought books as well—be subdivided into at least two or more sections. We are, of course, assuming that our readers are interested only in enterprises which are sufficiently big to have been incorporated under the Companies Acts, though of course it is possible to incorporate a business with limited liability even for a few hundred pounds of nominal or authorised capital. However, such concerns need not detain us. At all events, the points to be considered in dealing with a moderate case will be a useful example for those needing less elaborate systems, and will serve them in good stead when the day for expanding or multiplying the business arrives.

The principal point to be observed by all who are responsible for the direction and control of the affairs of the modern limited company is that the accounts to be kept of its transactions must be established and maintained at the sole instigation of the board of directors. They will be well advised, however, to consult the company's auditors upon all questions of organisation and routine in which any question of the accounts may arise, but the directors are

responsible, however, for the methods adopted. The statute requires the auditors to examine and report on those methods and the facts they disclose. The auditors do not form a part of the company's executive; they exercise no voice in the administration of its affairs; their rôle is simply and exclusively one of guardianship over the rights of the shareholders. Thus it is clear, [and recent legislation has adequately defined the point in section 113 of the Companies (Consolidation) Act, 1908], the executive must present the accounts and balance sheet to the auditors, who examine them and report as to their state. In effect, the balance sheet and accounts are the accounts of the directors who are solely responsible for the manner in which they are maintained.

We have dealt at some length with the above point before proceeding with the subject of this chapter, in order to impress upon our readers the desirability of fully realising the nature of the responsibility of the company official who may be called upon to organise and control any given system of accounts for the company to which he is attached. It is imperative that the subject of this chapter should be thoroughly well grasped, as upon it depends the success which is to attend his efforts in arriving at early and accurate results to be placed before his directors. He must always work with the idea that he is to be held responsible to the board for the balance sheet, trading, production and profit and loss accounts. It is only possible to ensure that efficiency and punctuality which are necessary, by adopting a systematic method of adjustment accounts for the whole of the ledgers under his control, and, further, the daily routine must not for a moment be relaxed or chaotic conditions of a most unwelcome kind are bound to supervene.

To plan the necessary books of account designed for the purpose of departmentalisation of results, where required, and also for self-balancing purposes, calls for a considerable amount of generalship on the part of the accountant or secretary. The first consideration is a thorough knowledge of the routine of the factory or workshop on the one hand, and

selling departments on the other. A complete acquaintance with every stage of manufacture and the labour and materials used, or the class of goods handled by a selling establishment is a *sine quâ non.* If the officials concerned, being, perhaps, newly appointed, do not possess this knowledge, no pains must be spared in acquiring that knowledge and with the least delay. It is not too much to say that where ignorance of the subject exists, it will be impossible to devise adequate recording systems for economic or financial purposes. It may be objected that such a sum of knowledge in addition to one's expert abilities in the accountancy profession must be unattainable. We do not, of course, suggest that our readers should go to the extent of being skilled craftsmen or salesmen in the business run by their companies, but they must at least pursue this object by persistent inquiry and observation until a knowledge of every important detail is acquired. In order to achieve such a result, many secretaries and accountants of some of the larger manufacturing concerns have taken up a course of technical instruction in their spare time. Such a course, backed up by searching observations employed in actual practice, will go far towards ensuring the best methods. These remarks apply, of course, whether we are discussing accounts which are purely of a financial nature or those required for costing or stocks and stores. They apply with equal force to each.

When designing a set of books upon a self-balancing basis, the first and main principle to be observed is that each separate ledger shall contain within itself the requisite means of proving its accuracy ; in other words, that the total debits and credits shall, at any time required, be in accord. Where such a method is not provided for, it is evident that if more than one ledger is in use and it is sought to effect a trial balance, it will be much less easy to locate an error in the books, as disclosed by such a trial balance, if it is not possible to say that the error is known to exist in any particular book. The institution of adjustment accounts renders this task a much lighter one, as, if by these means

it is known that the aggregate debits and credits are in agreement in any two ledgers, whilst in a third the difference existing in the trial balance is also exhibited, then that ledger is singled out for further checking, and the other two may be disregarded for the time being.

Take a simple example, that of a small manufacturing company producing one class of goods, in which we find merely a private or nominal ledger, a sales ledger, and a bought ledger, and where, consequently, the element of departmentalising does not arise, we will consider first the treatment of the cash book. The debits of this book will require to be so analysed as to show the amounts posted to the credit of the private ledger and the sales ledger. It is not probable that items will appear to the debit of cash account to be posted to bought ledger except in the unlikely event of a refund by a creditor whose account would, of course, appear in the bought ledger. The credit entries in the cash book must be analysed to show the total amounts posted to the debit of the private ledger and the bought ledger respectively; also, if need be, to the sales ledger. If we assume that monthly adjustments or balances of the books are in view, the analyses must be made to correspond. The entries in the journal and bill books will not be sufficiently numerous to present any difficulty in arriving at an analytical result of their postings. The other books remaining to be considered are the sales journal or day book, and the purchases and expenses, or invoice book, with their corresponding books for recording claims, returns, and allowances, on either hand. These four books will be dealt with as follows—

(i) *Sales Journal or Day Book.*—The individual postings, representing purchases of the customers, will be made to their debit in the sales ledger, whilst the monthly total, representing sales, will be posted to the credit of the Nominal Ledger Adjustment Account in the Sales Ledger. Thus it is seen that the sum total of the several purchases by customers to the debit will be equal to the credit in the adjustment account; and, other entries being for the moment disregarded, the ledger agrees.

Dr.	Cash Account.	Discount.			Sales Ledger.			Private Ledger.		
19..										
July 1	To Balance brought forward							£158	7	9
,, 1	,, Johnson, E.	£5	6	0	£45	10	3			
,, 3	,, Scanell, Capt., 2 Debentures							100	0	0
	Bank £145 10 3									
,, 4	,, Hemphill, Geo. ..	1	3	0	21	19	0			
,, 5	,, Burroughs & Co. ..				56	0	0			
,, 5	,, Samson, F., sale of machine							50	0	0
	Bank £127 19 0									
,, 10	,, Jones & Edwards ..		10	6	10	1	0			
,, 12	,, Edwards & Davis ..		5	3	5	4	9			
,, 19	,, Carpenter & Evans ..		10	6	10	2	0			
	Bank £25 7 9									
,, 20	,, Richards & Co., Ltd., dividend							5	16	0
,, 20	,, Bartlett, F.	10	12	0	95	10	3			
	Bank £101 6 3									
,, 24	,, Simpson & Co. ..		5	3	5	4	9			
,, 26	,, Brown & Parrott ..		17	9	18	1	3			
,, 31	,, Bank Interest on deposit							1	5	8
	Bank £24 11 8									
					£267	13	3	£315	9	5
								267	13	3
		£19	10	3				£583	2	8
	Cash to S.L. £267 13 3									
	Disct. to ,, 19 10 3									
	Total to ,, 287 3 6									
	To P.L. £315 9 5									

(ii) *Returns Book* (*allowances to customers*).—The position is reversed here. The total allowances for the month are, after being severally credited to the various debtors, debited to the adjustment account in the same ledger.

(iii) *Purchases and Expenses, or Invoice Book*.—Here we deal with the creditors. The position as regards the day or sales book is entirely reversed, the several items being credited in the bought ledger, and the totals of the purchases book placed to the debit of the nominal ledger adjustment account.

(iv) *Returns and Allowances Book* (*outwards*).—Conversely

	Per Contra.	Discount.	Bought Ledger.	Private Ledger.	Cr.
19..					
July 3	By Wages..			£15 16 0	
,, ,,	,, Petty Cash			5 0 0	
,, 9	,, Ballard & Sims ..	15 0	30 5 0		
,, ,,	,, Atkinson & Co. ..	2 9	3 1 0		
,, ,,	,, Stockwell, G... ..		9 9 0		
,, ,,	,, Baker & Son	10 0	19 10 1		
,, ,,	,, Samuels & Brown ..	17 0	33 3 2		
,, ,,	,, Hertslet, W. E. ..	1 8	1 17 10		
,, ,,	,, Capwell, M.	15 9	14 1 9		
,, ,,	,, Wages			16 5 9	
,, 14	,, Petty Cash			5 0 0	
,, 16	,, Wages			14 5 11	
,, ,,	,, Rates, a year to date			10 3 8	
,, ,,	,, Rent, Midsummer ..			36 0 0	
,, ,,	,, Directors' Fees, A.H.			25 0 0	
,, ,,	,, ,, ,, J. H.			12 10 0	
,, ,,	,, Petty Cash			5 0 0	
,, ,,	,, Sampson, C.	10 5	11 9 11		
,, 23	,, Wages			15 3 10	
,, 30	,, Do.			14 17 5	
			£122 17 9	£175 2 7	
				122 17 9	
				298 0 4	
	Balance carried forw.			285 2 4	
		£3 12 7		£583 2 8	
	To B.L. £122 17 9				
	Add Disct. 3 12 7				
	Total to B.L. 126 10 4				
	To P.L. £175 2 7				

we debit individual items and credit the total sum to the adjustment account.

The postings of the totals of these four books to the debit and credit of the two adjustment accounts must not be confused with the postings of those totals required to be made to the sales or purchases accounts in the nominal ledgers, as the case may be. Corresponding adjustment accounts will also be opened in the nominal ledger for sale and bought ledgers respectively, the entries being the same, but their order will be reversed. The result is that in the nominal or

private ledger a complete statement of the assets and liabilities, with the exception of the cash account, will be contained.

The cash book for such a concern could best be drawn up as shown upon pages 162 and 163. It can easily be kept in such a way as shown, to disclose readily the total postings to each of the three ledgers without interfering with the balances of cash at the opening or close of the period under review.

In posting Dr. and Cr. cash entries, the discounts allowed and received respectively are, of course, posted with the cash, and to the same side of the ledger accounts as the cash to which the discounts relate, so that in the adjustment accounts for either sales or bought ledgers, the total monthly discounts will be added to the total cash postings as shown upon the specimen cash account at the foot.

If the company's transactions involve the receipt or payment by bills, bills receivable will be, in all probability, only posted to the credit of the sales ledgers accounts; and bills payable to the debit of bought ledger accounts; the monthly totals of both being entered in the private ledger in the usual way. To satisfy the requirements of the adjustment accounts, it will therefore merely be necessary to take the same totals.

As regards the journal, the debits and credits must be separately analysed, which will be a small matter except, perhaps, at the balancing period for the annual accounts, when adjusting entries are of course more frequent. Care must at all times be exercised to see that the posting folios in this book contain an initial letter to denote the particular ledger into which an entry has been made.

The two following outlines of the sold and bought ledger accounts as appearing in the private ledger should be ample to illustrate the necessary steps to be taken to complete the automatic adjustment of the books.

If the sales and bought ledgers are in the hands of an individual who exercises no control over the private ledger, it will be necessary for him to keep an adjustment account, styled the "Private Ledger Adjustment Account" in each

SPECIMEN OF SOLD LEDGER ADJUSTMENT ACCOUNT APPEARING IN THE PRIVATE LEDGER

19.. July 1	To Balance as per schedule brought forward	√	£754	16	1	19.. July 31	By Cash and discounts ..	C.B. 9	£287	3	6
,, 31	,, Sales	D.B. 93	468	10	3	,, ,,	,, Bills Receivable.. ..	B.B. 2	150	0	0
,, ,,	,, Journal sundries ..	J. 6	38	10	5	,, ,,	,, Returns and allowances, *see* credit's book ..	fo. 9	15	10	1
,, ,,	,, Transfers to B.L. ..	√	15	10	6	,, ,,	,, Journal entries	J. 6	9	3	8
						,, ,,	,, Transfers to B.L. ..	√	91	2	3
						,, ,,	,, Balance, being debtors as per schedule c/d ..		724	7	9
			£1277	7	3				£1277	7	3
19... Aug. 1	To Balance down		724	7	9						

SPECIMEN OF BOUGHT LEDGER ADJUSTMENT ACCOUNT APPEARING IN THE PRIVATE LEDGER

19.. July 31	To Cash and discount ..	C.B. 9	£126	10	4	19.. July 1	By Balances as per schedule b/f	√	£258	10	11
,, ,,	,, Empties Account ..	fo. 3	1	19	0	,, 31	,, Purchases and Expenses book total	fo.35	138	10	2
,, ,,	,, Bills Payable	B.B. 2	35	10	5	,, ,,	,, Transfer to S.L... ..	√	15	10	6
	,, Transfers to S.L. ..	√	91	2	3	,, ,,	,, Journal	J. 6	75	0	0
,, ,,	,, Balances as per schedule c/d	√	232	9	7						
			£487	11	7				£487	11	7
						19.. Aug. 1	By Balances b/d		232	9	7

of those two ledgers ; but where the whole set of books is under the control of one person, it is merely necessary to record the adjustments in the private or nominal ledger as the case may be. This will readily be understood when it is seen that these accounts in the two personal ledgers for trade debtors and creditors will be exactly the same, but their respective entries will be reversed.

The balances of the two adjustment accounts represent the total of the scheduled amounts of debts due to and from the company. The accounts serve the dual purpose of proving the correctness of each personal ledger, and also of exhibiting within the firm's principal ledger the aggregate state of its position, including trade debtors and creditors.

To contrive the necessary steps for a small business such as we have just discussed is a comparatively easy matter. It would not be much more difficult if, in that example, there were sufficient customers to require the use of two sales ledgers. But if we have to provide a self-balancing system for a business of moderate dimensions, where perhaps half a dozen sales ledgers and two or three bought ledgers are in use, the problem presents a totally different phase. Whether a topographical or purely alphabetical division of the sales ledgers is adopted must depend entirely upon the conditions under which the company conducts its business. If its transactions are confined to the metropolis, an alphabetical arrangement will suffice ; but, on the other hand, if its customers are found in large numbers all over the kingdom and perhaps abroad, then a topographical division will best serve its needs. Assuming the latter case, we will suppose the six sales ledgers to be three provincial, two town, and one foreign. The provincial and town ledgers must be again divided into alphabetical sections. The whole set may be conveniently designated—

1.	Country	A-J	accounts
2.	,,	K-R	,,
3.	,,	S-Z	,,
4.	Town	A-L	,,
5.	,,	M-Z	,,
6.	Foreign.		

First, dealing with the sales department, we must now consider the means to be adopted as regards the books of first entry which will be connected with these six personal ledgers. As in the last example, the primary step must be the marshalling of the cash account. In a business of such a size, a receiving cashier would be required who would in all probability be engaged exclusively on those duties. His cash book will, therefore, not be concerned with any payments save those which he makes when depositing his receipts into the bank account. Such a book as shown on page 169 will be needed.

The total amount of daily cash receipts, in the specimen shown as £392 5s. 10d., will represent the amount of money paid to the bank for the day, which, together with the discount, the amount to be collectively passed to the credit of the several accounts in the sales ledgers is £410 13s. 1d. The various totals of each of the six ledgers for the day are shown under the respective headings referring to each. The whole of the totals are reproduced in summary form day by day in a similar book kept for the purpose by the chief of the counting house, who will also record the amount of cash paid to bank each day in the general cash book. By this means the amount of cash and discount credited to each of the sales ledgers is known at the end of the month. The receiving cashier's book is passed on to the book-keepers as soon as the day's takings are agreed and the summary has been completed and made to accord with cash and discount. The book-keepers then proceed to post the various items which relate to their respective ledgers. In so doing, each one will compile a rough list of each of his postings as to total amount only, the sum of which will equal that shown under the heading of his ledger at the end of each day. These rough records are retained and added together, when they should be in accord with the total summarised by the chief.

In contrast to the method of analysing cash from debtors in the manner just described, in some instances it is found that the receiving cashier will keep a separate cash book for

CASH RECEIPTS

Date.		Name of Customers.	Fol.	Discounts.			Cash Receipts.			Totals of Cash and Discounts to Sales Ledgers.																	
										Country, A—J.			Country, K—R.			Country, S—Z.			Town, A—L.			Town, M—Z.			Foreign.		
19.. July	9	Brown & Co., G. T., London			3	5	3	8	6										3	11	11						
		Slater, Ltd., Glasgow..		1	3	1	22	1	4							23	4	5									
		Sujihi & Boja, Japan..					59	3	8																59	3	8
		Cataja, F. A., Calcutta			13	10	25	10	5																26	4	3
		Allen & Sons, Wells ..			9	10	10	3	8	10	13	6															
		Boardman, H., London			1	5	2	14	9										2	16	2						
		Sampson & Co., do.		9	3	8	92	16	0													101	19	8			
		Moons, Ltd., Chester..		1	5	10	24	3	10				25	9	8												
		Carson & Bell, Ipswich		5	6	2	152	3	8	157	9	10															
		£410 13s. 1d.	=	£18	7	3	£392	5	10	£168	3	4	£25	9	8	£23	4	5	£6	8	1	£101	19	8	£85	7	11
				P. 8	L.		9 C fo.	.B. 10			√			√			√			√			√			√	

£410 13s. 1d.

£410 13s. 1d.

each of the ledgers in use. He sorts the remittances to correspond before commencing his daily entries, and at the end of the day the totals of each book are brought to an additional book. This plan has its advantages so far as the book-keepers are concerned, as they are then entirely independent of each other, but as regards the cashier, the work is found to be rather more arduous, and involves a greater number of books being kept.

To consider the marshalling of the sales, it will be necessary first to deal with the orders as they are received from the customers. As these come in, they are directed into channels to correspond with divisions of the company's clientele as represented by the several sales ledgers; packing rooms, forwarding and invoicing departments being so arranged as to preserve the same distinction throughout. In the case we are discussing, the six ledger clerks will, in all probability, be represented by at least a dozen invoicing clerks, who will be organised in groups to prepare invoices and day books to coincide with each ledger, thus providing a separate and distinct book of entry for the principal class of transactions falling to the lot of the average business house, viz., the sales.

Returns and allowances to be credited to the sales ledgers should be treated in the same manner as the goods outwards, and by the same clerk. The other books of entry with which the sales ledgers will be concerned will be the bills receivable book and journal. In none of these are the entries likely to be numerous, the analysis of the postings in all of them being a simple matter. Some businesses, such as breweries, where returned empties involve considerable records, are, however, notable exceptions.

On the other side of the Counting House, we find the books dealing with the purchase of goods and the personal ledger or ledgers containing the accounts of the trade creditors, i.e. the bought department. Here, perhaps, two ledgers may be required. To arrange these books upon the self-balancing principle will be a less formidable affair than will the selling

department. The majority of houses of the magnitude we have imagined for the case under review, employ a separate cash book kept solely for the purpose of detailing the payments to creditors as they are passed by the board. They are totalled to represent the amount of cheques authorised for payment at each meeting, and correspond with the minute book entries. The total cash entries are again entered to the credit of the general, or chief, cash book, kept by the accountant in the same way as was described in the case of the receiving cashier's book. It will be seen that this method ensures a very necessary amount of privacy as regards the financial position, as neither side of the office has any information as to the net state of the company's coffers; the respective staffs of the buying and selling sides of the Counting House being wholly independent of each other. The cash book, shown on page 172, will meet the requirements we have outlined.

To obviate this form of analysing the cash outwards in some businesses, the accounts for payment are first sorted out in the three groups, each being recorded in a separate list by itself, providing in such a way the full amounts to be debited to each ledger. Both methods claim equally ardent partisans, but on the whole the analysed form of cash book seems to meet with the greatest approval both from the view of the controller of the office staff and the book-keepers. As regards the time occupied by each system, there is little to choose. Whichever form of cash book is utilised for payments passed by the directors, it must take one of the two designs we have above described, because, to satisfy the general scheme of self-balancing accounts, means must be furnished to show, with the greatest facility, the amount which at any given time has been passed to the debit of any of the bought or general ledgers; and, maybe, in a few isolated cases, to any of the sales ledgers also. We may point out in passing that the cash books in themselves form a general schedule of accounts presented to the board for consideration and payment, and are used

PAYING CASHIER'S CASH BOOK

Cheques in favour of.	Fol.	Discount.			Amount of Cheque.			Amounts posted to Ledger. Bought, A—K.			Bought, L—Z.			General Ledger.		
Meeting, October 15*th*, 19..																
Macfarlane & McDougal ..		£5	10	0	£94	10	0				£100	0	0			
Sampson, F. H.			3	10	7	14	0				7	17	10			
Bartholomew & Co.		1	9	6	28	4	5	£29	13	11						
Walthon Watch Co.			10	5	11	7	4				11	17	9			
Frampton & Brown			1	5	1	7	11	1	9	4						
Benton, C.		2	17	0	54	10	0	57	7	0						
Crowton & Binns			3	11	7	14	1	7	18	0						
Newton & Ward, Ltd. ..					159	19	0				159	19	0			
Adlard Iron Co., Ltd... ..					39	18	0	39	18	0						
Ramshaw, Innes & Co., Ltd...		1	5	4	27	9	0				28	14	4			
Wages to 18th Oct.					410	5	8							410	5	8
Bentham Overseers, rates ..					59	17	5							59	17	5
Bentham Gas Co.					114	9	10							114	9	10
Manager's Petty Cash Account					50	0	0							50	0	0
		£12	1	5	£1067	6	8	£136	6	3	£308	8	11	£634	12	11

$\underbrace{\text{Discount} + \text{Amount of Cheque}}_{£1079\ 8s.\ 1d.}$ $\underbrace{\text{Amounts posted to Ledger}}_{£1079\ 8s.\ 1d.}$

in lieu of either a special list, or a detailed statement of each creditor's account to be paid appearing in the minute book or upon the agenda, as is sometimes needlessly done. This is effected by the simple expedient of obtaining the initials of those directors who sign the cheques at the end of each list of payments in the cash book.

The other principal book of entry connected with the bought ledgers is the invoice book of goods inwards, or, as it is more frequently called, the purchases and expenses book, a book which, in the majority of cases, records the amounts of the various invoices for goods received on the one hand, and shows, in tabular form, the account to be debited in the general or private ledger on the other. For our present purpose we have merely to consider the steps to be taken to satisfy the requirements of the posting analysis on the trade creditors' side of the book. The ordinary purchases book, with only one bought ledger related to it, will contain one cash column, into which the total amount of the invoice is entered, and a number of other money columns to show the impersonal account to bear the debit. To meet the conditions imposed by the adjustment account system where two bought ledgers are employed, the introduction of a second column for the invoice totals is the only requirement. The cash book specimen shows one bought ledger for the A–K accounts, another for the L–Z. The two invoice columns will therefore be employed in like manner. A side total at the foot of each page of the purchases or invoice book is shown in order the more readily to agree the cross casting of the columnar arrangement of this important book.

Empties and returns and rebates allowed by creditors will be similarly treated, preferably in a book ruled in precisely the same way as the purchases book, thus ensuring that the impersonal accounts may, where possible, receive credit for allowances or empties in those accounts to which they specifically refer.

As with the sales ledgers, the allocation of postings from bill books and journal to the bought ledgers will present

EXAMPLE OF ONE OF SIX SALES LEDGERS' ADJUSTMENT ACCOUNTS IN "BALANCE" LEDGER

A—J, COUNTRY

Date	Particulars		£			Date	Particulars		£		
19.. Oct. 1	To Balances brought forward					19.. Oct. 31	By Cash and Discount .. (As per monthly totals as analysed in the reserving cashier's account for the month.)				
31	,, Sales, as per Day Book, total .. .. .. (Obtained from separate Day, or Invoice Book, kept to correspond with this Sale Ledger.)					,,	By Bills Receivable.. .. (As abstracted from the Bill Book.)				
,,	,, Transfers from Bought Ledgers— A—K = L—Z = (Posted from General Journal. Other items such as bills returned or dishonoured, or interest, would be debited through the same source.)					,,	By Journal entries .. .. (Abstracted from General Journal credits for the month, including transfers from Bought Ledgers.)				
						,,	By Returns and Allowances (From separate Returns Book correlated with this Sale Ledger.)				
						,,	By Balances as per schedule, carried down				
		£						£			
19.. Nov. 1	To Balances brought down..										

EXAMPLE OF ONE OF TWO BOUGHT LEDGERS' ADJUSTMENT ACCOUNTS AS KEPT IN THE "BALANCE" LEDGER

A—K

Date	Particulars	£			Date	Particulars	£		
19..					19..				
Oct. 31	To Cash and Discounts .. (As shown by total as analysed in paying cashier's book for the month.)				Oct. 1	By Balance brought forward			
,,	To Returns and Allowances (Shown by first column in Returns or Empties Book.)				31	By Purchases and Expenses Book .. .. .. (As shown by first column of Invoice Book relating to this Bought Ledger.)			
,,	To Bills Payable .. .. (Abstracted from Bill Book.)				,,	By Journal entries .. .. (Abstracted from credits in the General Journal representing bills renewed, interest thereon, and transfers from Sales Ledgers for contra settlements.)			
,,	To Journal entries .. .. (Abstracted from debits for the month, if any.)								
,,	To Balances as per schedule carried down								
		£					£		
					19...				
					Nov. 1	By Balances brought down..			

little difficulty, as it is not probable that entries in either will be numerous.

In such a scheme of organised accounts a " key " to the whole of the personal ledgers is sometimes usefully embodied in a separate ledger under the control of the accountant or secretary personally. This is known as the balance, or adjustment ledger, and is kept for the sole purpose of recording month by month, (assuming the agreement of the books is undertaken at such periods), the total balances and adjustment accounts of each of the sales and bought ledgers embraced by the system. A specimen of an account as appearing for one of the sale ledgers, and another for a bought ledger with the entries annotated to show the source from which various totals from the books of entry emanate, will serve as a useful and concise recapitulation of the scheme of adjustment accounts described in the foregoing pages. The introduction of the " balance " ledger removes the necessity of keeping the adjustment accounts in the general, private, or impersonal ledgers, which would otherwise be needed at the same time during each financial year.

The methods adopted for small and medium-sized businesses have been fully dealt with. We now come to the consideration of Self-Balancing Accounts for larger companies. To accommodate the many thousands of entries which daily arise in establishments employing very large Counting House staffs, the tabular methods we have hitherto considered in this chapter would be inadequate, inasmuch as when twenty or thirty or more ledgers are involved in a Sales Department, it then becomes impossible to keep the invoicing and cash receipts analysed in one tabular book. The system usually adopted in such instances is so to arrange the billing or invoice clerks in groups of from two to four to represent one ledger, allocating groups of ledgers to each cashier. Thus, assume a Counting House in which forty-eight invoicing clerks are employed, where it has been found by experience that the output of four of the clerks can be encompassed by one ledger, and that the receipts passing through

the hands of receiving cashiers involves the employment of one cashier for six ledgers. The proportion is, therefore, forty-eight invoicing clerks, twelve ledger clerks, and two cashiers. This is about an average ratio as far as the writer's experience goes, but instances have come under his notice of the employment of 150 invoice clerks, the output of which was condensed into twenty-five ledgers, these ledgers being covered by five cashiers. On the other hand, in certain classes of business it may be found that more ledger keepers are employed than billing clerks, but these conditions are rare. For a practical illustration the instance just given, of forty-eight invoicing clerks, and so on, is one which may best be taken as a suitable example. The following table, therefore, would be the plan upon which to divide a clerical staff for the sales side of the Counting House as to invoicing, abstractors, credit returns, ledger keeping, and cashiers—

Billing or Invoice Clerks	Abstractors	Returns	Ledger Keepers	Receiving Cashiers
1– 4	1	1	1 = A. & B.	= A.
5– 8			2 = C.	
9–12	2		3 = D. & E.	
13–17			4 = F. & G.	
17–20	3	2	5 = H.	
21–24			6 = I. J. K.	
25–28	4	3	7 = L. & M.	= B.
29–32			8 = N. & O.	
33–36	5		9 = P. Q. R.	
37–40			10 = S.	
41–44	6	4	11 = T.	
45–48			12 = U.–Z.	

It will be observed from this illustration that the scheme of organising or marshalling the work of invoicing, abstracting, or dissecting, returns, ledger-keeping, and cash receipts is capable of considerable modification as to proportionate equivalents, or for expansion to any required degree, to suit the requirements of any undertaking. It is not, of course, suggested that the division of ledgers on an alphabetical principle is the only one to be followed. It is probable that a topographical division may suit the requirements of a given

business, as it would then be brought into line with territorial divisions as allocated to travellers. Again, it may be necessary to adopt a division on both principles, that is to say, a section of the Sales Department may be devoted to, let us say, the North-Eastern district of England, and this again may be subdivided on an alphabetical basis. Whichever plan is chosen, however, it does not alter the principle we are discussing, and careful consideration must be given in organising this part of the office so that the best and most efficient results may be obtained with the least possible clerical labour. Each squad of billing clerks could have one of their number as leader, or a special clerk to each group for invoicing could be detailed for the purpose of analysing Sales into the requisite departments. The sub-totals from each squad, representing Departmental Sales, as well as the total dealt with by the squad as a whole, would be daily recorded by the ledger keeper after he had completed the daily postings to the debits of the company's customers. Furthermore, each squad may be made responsible for all returns and allowances, empties, etc., to be dealt with in the converse manner in precisely the same way as described for ledger entries and departmental treatment.

It will, perhaps, be as well briefly to outline the work undertaken by the first four invoice clerks, the sales recorded by whom are posted into the first ledger covering "A & B." It must be assumed that the Warehousing and Packing departments are so organised that the Dispatch Notes and other matter dealing with the details for preparing Invoices are so divided as to supply each group of invoice clerks according to the alphabetical or topographical division, as the case may be ; and furthermore, the placing of orders as they are received through the mails or over the counters are similarly divided on the same allotted plan. In this case, where the first group is solely concerned, we may assume that the invoicing is controlled by the senior of the group, who would be responsible for the other three. It is possible that he would be assisted by a fifth clerk solely responsible as a dissector

or abstractor of the daily Sale Sheets in order that departmental totals may be arrived at by each invoicing group. At the end of each day the ledger clerk in charge of the "A–B" Ledger would be in possession of the total sales passing through these four invoicing clerks, and also of the dissected departmental totals showing how the sales through this section of the Sales Department had been arrived at. Modern Billing systems, which embrace the Loose-Leaf principle of Day Book, lend themselves very readily to such treatment as this, and a great amount of labour is saved. Coming again to the ledger keeper's duties at the end of every day, each one would be in possession of the total amount of sales posted from the respective Sales Sheets to the four billing clerks for his ledger, and also of the departmental dissections arising from those sheets, and these departmental totals, with the total sales of his section, will be recorded daily in a separate book kept by each ledger keeper for the purpose, or in a separate part of his ledger. It will be seen that the ledger keeper becomes the pivot, as it were, of the whole sales account organisation. He receives details of sales and departmental dissections with any returns or allowances from the four invoicing clerks, the abstractor, and returns clerk; whilst, on the other hand, a column in the Cash Book of the receiving cashier, A, is devoted to his ledger. Into this column is entered each item of Cash and Discount in a single amount concerning any of the customers for which he is responsible, and for these Cash and Discount, and Bill transactions, he also receives a daily total, so that at the end of the month the ledger covering "A–B" customers can be separately balanced; and so on for the eleven other ledgers comprising the system.

It has been found necessary in most Counting Houses to allot separate clerks to deal with returns and allowances. To meet such a contingency in the example illustrated above, it may be found possible for one clerk to deal with returns and allowances for each group of twelve billing clerks, or it may be, in other instances, where extensive systems of

returns and empties are the rule rather than the exception, one clerk may be needed for each group of billing clerks. As regards abstractors, or dissecting clerks, each ledger would contain an Adjustment Account in which departmental totals are tabulated daily, or a separate book may be kept for the purpose as before described, and these would be made to agree with all other postings at the end of each month. It is not suggested that the alphabetical division of the twelve ledgers given in the above example is practicable or advisable for all purposes ; this must be arranged to suit each particular case, and it is presumed that no up-to-date business would conduct their account-keeping except upon Loose-Leaf principles for the whole of its accounts, which render such arrangements as here described more or less elastic. The work of the two cashiers would be very similar to that shown in the example on page 169, but with the ledgers mentioned in the last example, the tabular headings would be altered to correspond to the division on the group system given above.

There are very few businesses in existence which call for such extended treatment in regard to their purchases or Bought Ledgers. On that side of the Counting House it would in all probability suffice if the Purchase Books and Bought Ledgers were entirely arranged upon the tabular system, not involving more than ten or twelve Bought Ledgers. If they exceed the latter number, then it is perhaps advisable to employ the "group system" as described for sales.

The accountant or such other official in control of the Counting House staff, or his immediate assistant, would keep a daily tabular record of all total departmental transactions from each group of invoice clerks with its corresponding ledger, and daily checkings would also be made of the tabular totals passing from the receiving cashiers to the ledgers on the other side of the customers' accounts. The same arrangements would, of course, apply as to departmental dissections and Bills of Exchange.

CHAPTER XV

DEPARTMENTAL ACCOUNTS

A VERY large proportion of the industrial and trading companies, as they exist at the present time, carry on their business on a multiple-shop principle. Apart from the great stores of the " universal provider " species, where the departments may run from a half-dozen to thirty or forty, we find numberless concerns constituted on more modest lines, but whose arrangements demand especial treatment under this head. In almost every instance in which a company manufactures or sells more than one class of goods it is found that each class is represented by a distinct and separately managed department. It is obvious that if such conditions prevail, it is incumbent so to arrange the books as to show the net result of the handling of labour and raw material, with any direct expenditure involved in the case of industrial undertakings on the one hand, and in buying and selling goods in retail establishments on the other. The same may be said of insurance companies, wherein recent legislation provides for separate accounts in regard to life, fire, and other classes of risks covered by any one company. Many public services such as gas and water undertakings, jointly owned by a single company, are very commonly found. In all cases of these descriptions the principles outlined in this chapter will apply and can easily be adapted to the peculiar needs of any.

For the greater ease in general adaptation of the scheme of departmentalisation, it will be convenient to assign an alphabetical denomination to each department. The special requirements of any trade or industry will then be more readily brought into line with the broad outlines as we hope to define them in the ensuing pages. It will be convenient, too, first to consider a case of an industrial company, and

later, that of a concern which is wholly of a trading or retail description. The treatment of both is, throughout, very similar, but it will be afterwards observed that several important details, not exactly common to both cases, require especial handling.

To what point the conditions of the departmental figures may be carried must depend, to a large extent, upon the amount of control exercised by departmental managers. If we assume each to be responsible for the handling of the productive labour and the purchasing of the raw material consumed in the products of manufacture, and the building and machinery to be quite distinct as far as the arrangements permit, then it should be possible, and would be extremely useful to the board, if a trading account could be supplemented by a separate departmental costing system, the cost accounts being adjusted and agreed with the profit and loss account for each department, the actual profits being eventually carried to a general administration account. Where it is impossible to carry the results of the individual workings of departments to such a fine issue, it is imperative to aim at a trading account for each, the resulting balances giving, of course, gross profits earned in the working of any given department. It is better to work to a closer result than this if the conditions admit, as in this way it will be found easier for each responsible manager to locate leakages which may occur in his particular sphere of influence, and, what is perhaps of equal importance, will provide a readier means of suggesting any possible economic reforms. Such a desideratum cannot be attained unless an exhaustive, but useful, classification of expenditure is periodically available. This is, moreover, especially advantageous when the general executive have the same data before them for each department, when comparative considerations are to be undertaken.

As regards industrial businesses, the task of arranging departmental accounts will be one of a simpler nature than with the case of retail houses. The sales of the manufactured goods, representing the finished products, are the cumulative

result of a series of departments, the precise selling value, as related to each department, being unknown. The problem thus devolves into one of analysing expenditure under the heads of departments ; its solution may be aided by the correct interpretation of adequate information. In such cases, where a series of departments manufacture and complete their products ready for market, the same conditions apply as to a purely retail establishment.

Taking first the case of the factory, the problem of an adequate division of labour, both productive and non-productive, and raw materials, first presents itself. A division of such items as power, rent, rates and taxes, insurances, fuel, light and cleaning, repairs, renewals of plant and loose tools, depreciation of buildings, machinery and plant, should also be aimed at, whilst this may be easily effected with a new organisation or a reconstructed concern, the correct allocation of these items present more difficulty with an older concern. We must assume throughout that the accounts of each department are collectively kept in one counting house. For economy's sake this is usually the case. If the departments are not numerous, the nominal or private ledger will contain rulings on a columnar plan to show the departments' several accounts of gains and expenses under each head as detailed above. To arrive at such a result, the " books of entry " must be arranged as follows—

Wages.—Separate wage lists for each department will be prepared each week. The lists will be subdivided under two heads : (*a*) for the workpeople employed wholly for the purpose of producing the company's output—in other words, the skilled or direct labour ; (*b*) the wages of odd men such as engineers, cleaners, messengers, if they are occupied solely in the work of a given department, generally termed indirect. Any unproductive labour of this description would be added to salaries of clerks employed exclusively by the departmental chief for the purpose of time-keeping or costing, should the department be responsible for that work instead of the counting house. In large concerns, the costing department

is usually a separate and distinct organisation. The wages sheets should be vouched by the departmental manager before being passed on to the counting house for payment, where week by week the amounts of productive and non-productive labour are recorded. This aspect of the subject is discussed more adequately in the separate chapter on Costing.

Raw Material.—If the material consumed by each department is of one description, it will merely be necessary to divide the item of purchases into separate headings—one for each department, but where any one department consumes material of more than one kind, and further, if each sort is used in comparatively large proportions, as, for instance, metal, timber, glass, etc., then separate accounts ought to be kept for each. These would be further subdivided into departments. A bought, or invoice book inwards, must be kept in a tabular form. Assuming three descriptions of raw material are each purchased in sufficiently large quantities to warrant distinct accounts being kept (we will say purchases A, B and C, are obtained for consumption in departments X, Y and Z); then the headings of the columns for the bought book will be as follows—

1. Date.
2. Name of creditor.
3. Invoice number
4. Ledger folio.
5. Invoice total (subdivided if more than one bought ledger is kept on self-balancing basis)

6. Purchases A.	i	Department	X
	ii	,,	Y
	iii	,,	Z
7. Purchases B.	i	Department	X
	ii	,,	Y
	iii	,,	Z
8. Purchases C.	i	Department	X
	ii	,,	Y
	iii	,,	Z.

Columns 6, 7, 8 are thus subdivided into three minor headings representing the departments. It may be that material is purchased in large quantities, which, moreover, may be used

in course of time by all departments in common. In this case a provision must be made for purchases consigned to " stores account " whence the goods would be requisitioned from time to time. The departments would in such instances be charged with the cost of the raw material as supplied by the stores keeper (see chapter on Stock and Stores Accounts).

Power.—This item is, in most factories, sufficiently high to necessitate a separate amount being charged to each department. The power for the whole plant for economic purposes will be in all probability generated at one source. It is not, however, a difficult matter to apportion satisfactorily the relative horse-power required to drive the machinery in each shop. From this basis the proportionate departmental cost can periodically be approximated. In connection with electrical plant, it is sometimes more advantageous—instead of having " one source " of power supply—to hire or rent small electric motors for each department ; in such cases the separate cost is easily ascertained. The power bill is usually levied on each shop by taking the cost of labour in the engine room, fuel consumed, repairs and depreciation of engines and boilers and engine-house, the total cost being divided over the shops according to the estimated power required by each.

Repairs and Renewals.—These items of expenditure are easily separated for the departments as they occur. Where machines and tools are in use, the cost of repairs and renewals is always heavy and should be charged separately whenever it is possible. If, however, the total expenditure on repairs and renewals is sufficiently large to warrant the establishment of a "maintenance department," it will be necessary to organise a system of time dockets and other records so as to apportion correctly the labour and materials, etc., used on the various jobs for the respective departments.

Depreciation.—It should always be the aim of the management so to devise the private ledger accounts representing assets in the shape of buildings, machinery and plant, loose tools, etc., in such a way as to denote easily at the outset the

precise value assigned to each shop or department respectively. The same conditions should also be observed whenever additions have been effected. This enables the accountant to charge a definite amount under the head of depreciation to any department.

Rent, Rates, Taxes, Insurance, Heating, Light, etc.—It may be possible to assign an equitable proportion of any or all of these items of expense entailed by the factory. In the case of standing items such as rent, rates, taxes, and insurance, it may perhaps do to apportion such items on the basis of the number of cubic feet occupied by each department, but cognisance should certainly be taken of any unequal distribution of machinery which would very materially affect an item like insurance or even rates, where the rateable values of a factory is much enhanced by its machinery. As to heating, the cost of the whole per foot per hour is generally found satisfactory, whilst lighting can be best apportioned by calculating the cost per burner or lamp per hour. Thus in both cases, each department would, as regards heat and light, be charged according to the number of hours worked by each in the course of the half-year or year, as the accounts may represent.

An extension of the bought book to cover these several items of expense may be found convenient, though an extensive number of rulings should be guarded against. Many such books containing as many as thirty cash columns are frequently found. It is much preferable to adopt a division by providing one invoice book for purchase of raw material proper, and another for expenditure.

Turning our attention to the case of a retail establishment, the conditions as regards outgoings may be said to be comprised in those required to be followed in a manufacturing concern, just as we have described above. But as regards the sales of, say, a company owning a large retail store, in which there are a number of independent departments, each of them supervised by a manager who is responsible for all incomings and outgoings, sales and purchases, and a

distinct selling staff, it is necessary to widen considerably the scope of the departmental scheme of analysing the trading and profit and loss returns. Here the first consideration will be the proper allocation of sales to credit customers, as no doubt the sales of this description all pass through one counting house, where the day books, or sales journals, will be required to show, item for item, the amount of goods disposed of in each department. Cash sales will present no difficulty, as it is usual to find that such goods as will be disposed of to cash buyers are paid for at a cash desk, acting in unison with each particular department ; or, where the cash in such circumstances is handled by a device on the principle of the pneumatic tube or overhead gravitation methods communicating with one central cashier's office, arrangements will be made in that office to record automatically the cash accruing to the respective parts of the store.

Analyses of sales by large retail concerns doing principally a wholesale trade are generally carried out by employing day books with a separate cash column for each department, the arrangement being similar to the bought book described on page 184, but simpler, allowing provision for the following details—

(1) Date (which, however, may be omitted, especially where the daily entries are numerous, in which case the date may be merely given at the commencement of the transactions for the day, and at the head of each folio).

(2) Customer's name and address.

(3) Details of goods and quantities.

(4) Prices.

(5) Cash representing details of each item of the invoices.

(6) Invoice totals.

(7) Posting folios.

To the right of this column will be as many additional cash columns as there are departments to be represented.

A similar book will be utilised for allowances made to customers for empties, rebates, or overcharges, regard always

being had to the proper allocation of such credits to the department responsible for the charge.

In dealing with departments of a business, the taking and keeping of stock-in-trade must be carried out with a view of discriminating closely between the goods of each department. In order to obtain reliable trading returns, it is imperative that the value of the stock on hand for every department should be known, as only by this means is it possible to ascertain correctly the exact cost of the goods disposed of over a given period. Briefly stated, such an arrangement would exhibit for Department A, over a period of six months, the statement as here shown,

DEPARTMENT A. TRADING ACCOUNT

6 MONTHS ENDED 31ST DECEMBER, 19..

Dr.					Cr.
19..				19..		
Dec. 31.	To Purchases— Stock, 1st July, 19..	£3000 0 0		Dec. 31.	By Sales	£15000 0 0
	Add Purchases ..	8000 0 0				
		11000 0 0				
	Less Stock, 31st Dec., 19.. ..	3600 0 0				
			£7400 0 0			
	To Balance, Gross Profit		7600 0 0			
			£15000 0 0			£15000 0 0
					By Balance, Gross Profit	7600 0 0

and so on for each of the other departments. Against the gross profits of each should be charged, on similar lines to those advocated in the earlier part of this chapter, all wages, establishment and administration charges, which can be directly or equitably placed to the debit of each. The net profit of all departments is eventually carried to the credit of a general profit and loss account, against which would be debited the other charges of administration not borne by the departments individually, such as directors' fees, debenture interest, etc. The board are thus placed in a position to gauge exactly the respective merits or drawbacks of the several sections making up the business as a whole.

Before closing this chapter, it should be noted that the requirements of the scheme of adjustment accounts dealt with in the preceding chapter will in no way be interfered with in carrying out the necessary steps of analysing the incomings and outgoings of the departments. The only precaution to be observed will be that of keeping separate sales journals and bought books to correspond with the respective sales or bought ledgers; or, a separate column for the totals of the invoices inwards or outwards in each case, according to the number of ledgers in use. A study of the two chapters will explain clearly the dual scheme of keeping books on a self-balancing principle, and at the same time providing for a full account of any given department.

CHAPTER XVI

THE ACCOUNTS OF BRANCH ESTABLISHMENTS

For the more convenient and effective methods of distribution of a company's products, the opening up of branches as retail depôts follows as a natural consequence the expansion of trade. These branches may be establishments in constant and convenient communication with the parent factory or head office, or at more remote distances in other cities and towns throughout the kingdom ; or again, these branches may be overseas. In any of these three instances, the relations between the depôts and the central controlling establishment will be in principle much on the same footing, though on account of the greater or less distance from the head office, the actual arrangements with each class will vary more or less according to the means of communicating with them, or, what is probably more important, with the amount of responsibility exercised by branch managers. This latter condition generally increases in degree with the greater remoteness of the branch. For general purposes we may classify the branches into—

(i) Metropolitan or town.
(ii) Provincial.
(iii) Foreign and Colonial

The broad principle underlying the relations between any branch and the central depôt will be such that the latter will treat each of the former in the same manner as a customer's account would be dealt with, but varied according to the amount of detail work carried out in the books of the depôt. It may be treated as a more or less self-governing entity, rendering to the parent periodically a trading and profit and loss account, or it may simply keep the " books of entry " for cash receipts, sales, purchases, wages, and expenses, these being afterwards dealt with in ledgers kept by the head office

staff. These latter conditions are likely to prevail only in branches within easy distance of the central administration. With provincial and foreign establishments of a company, the internal arrangements of each will most probably embrace a comprehensive and self-contained system of accounts, the main results of trading revealed by those accounts being duplicated in aggregate in the books of the head office, where, if the branches are numerous, a branch ledger would be kept for that sole purpose. The problem of adapting a system of books for such branches will be the same for any business. It will consequently serve our purpose better to discuss at some length the measures it would be desired to adopt in a case where the counting house of a given company has the task of keeping and compiling the accounts of the head establishment and also those of outlying depôts.

In the following example, which will represent a manufacturing company owning, besides its central establishment —comprising, in addition to its factory, a selling department, where the main volume of its business is effected—a couple of branches run for the greater convenience of vending its wares in outlying districts of the same town. The branches will draw their supplies from the head establishment, whence will be paid all the expense of maintaining those branches, separate accounts being kept for both on the "imprest" system. In other words, an initial sum will be advanced to cover the probable cost of wages and other cash expenses to be disbursed by the branch managers, who will each week render an account of the total cash expended, with a statement of cash in hand. A cheque is then drawn in favour of the branch, equivalent to the total week's outlay, thus bringing the cash in the manager's hands up to the original amount advanced, and so on from week to week. All invoicing will be carried on by the respective businesses, the day books being kept on the loose-leaf principle. The leaves, or copies of the invoices, representing the branch day books will be sent each day to the head office where the whole of the ledger work will be carried on, as well as the receipt of

cash from credit customers : cash sales being remitted daily from the branches to the counting house at headquarters, or paid into the bank locally for transfer to the Head Office banking account. It is desired so to devise the accounts with a view to showing the cost of production in the factory, and the net trading and profit and loss accounts for the head office and the two branches respectively. The accounts to be placed before the directors are to exhibit—

(i) Manufacturing or Production Account.

(ii) Trading and Profit and Loss Account for Head Office.

(iii) Trading and Profit and Loss Account for Branch A.

(iv) Trading and Profit and Loss Account for Branch B.

(v) Net Profit and Loss Account.

(vi) General Balance Sheet, the details of which are required to show the amount of stock on hand, debtors' and creditors' balances, and the value of leasehold buildings, and also of furniture and fixtures at each of the various establishments.

We must consider, as briefly as possible, the details under each of the above heads. The business may be said to present two distinct phases : the first an industrial one, or the accounts dealing with productions of the factory ; secondly, the selling side, or the trading accounts of the head office and the two branches respectively.

i. *Factory Accounts*, representing cost of production.

The accounts are so designed to allow the factory to exhibit a detailed cost of turning out its products on the basis that, apart from the separate selling departments, it shall, by itself, contribute to the general profits of the company. This is effected by taking the cost of wages, or skilled labour involved, and the raw material consumed, to which is added a certain percentage, arrived at annually from the factory's accounts, to cover the whole of the charges involved in maintaining and administering the works. By these means the full manufacturing cost is known. Cost Accounts are kept whereby the actual cost of each article is obtained. Before being charged up to head office or either of the two branches, a profit (say 10 per cent) is added to the cost of the goods

supplied to those departments. It is found in this manner that the factory by itself contributes approximately this percentage of profit on its output to the general profit and loss account each year. In principle the three distributing establishments thus fulfil the rôle of customers of the producing establishment. They in their turn vend the same goods to their respective customers at a uniform price designed to cover the respective costs of carrying on their departments, and at the same time contribute profits to the general funds. The goods as manufactured are passed to a general store attached to and administered by the factory staff, to which requisitions are made by the selling departments as their respective stocks are depleted.

ii, iii, and iv. *Selling Departments* (Head Office : Branch "A" and Branch "B").

The accounts of each of these establishments will be kept in the general counting house on a uniform basis, thus standardising the method adapted for each. As explained previously, each will be charged according to the goods delivered to them by the factory. The sales of each department will be credited from the totals of the monthly sales obtained from loose-leaf day books kept by all the establishments, whilst the cash sales will be credited each day as paid in to the head counting house or local bank. The several day books may be posted into one set of sales ledgers, the postings therein being indicated by an initial letter before the folio of the day book : such as "H" = head office, "A" = branch "A," "B" = branch "B." The ledgers will thus be common to all customers of the company, though the debtor's accounts contained in them will reveal the branch from which the goods were supplied.

The nominal ledger should be so ruled as to admit of a tabular statement debiting and crediting each branch under the heads of sales, purchases, and each of the various heads of expenditure common to each, such as wages, manager's salary, and travellers' commission, rent, rates and taxes. It is also advisable to treat any of the capital accounts with

which the several selling establishments may be concerned, such as buildings, leaseholds, furniture and fixtures, so that the proper amount of depreciation can be assigned to each. This is also necessary for insurance purposes. Separate stock accounts must also be shown. A set of ledger accounts to illustrate this procedure will be found on pages 200 to 205, where a set of trading and profit and loss accounts for separate parts of the business, and a general balance sheet with a final profit and loss account, are also shown.

Foreign branches introduce a somewhat more complex problem, inasmuch as the element of fluctuating exchanges demands that the figures representing the status and trading of the depôts overseas shall be converted into the currency adopted by the parent establishment. A business established abroad would naturally be conducted on a self-contained basis, rendering accounts of its trading and assets and liabilities periodically to the principal office at home, but making remittances of surplus cash as circumstances permitted, as well as rendering intermediate reports, say monthly, as to its sales, purchases, and principal items of expenditure.

There are two distinct methods of treatment of transactions with foreign branches, according to whether the rate of exchange with the foreign country is stable or unstable. Normally, the exchanges with the principal European countries, the United States of America and Canada are stable, whilst South American countries are examples of States whose currencies are unstable. As a result, however, of the difficult conditions arising out of the Great War. nearly all the principal rates of exchange (which were formerly stable and moved within narrow limits) lost their stability and wide fluctuations resulted. Whilst in a few instances, rates are now approaching normality, many countries are still suffering severely from the world-wide after-effects of the Great War; their currencies are heavily depreciated and their rates of exchange fluctuate widely.

Examples illustrating the treatment in accounts of both

stable and unstable currencies are given in the present chapter; that of France being selected as an example of a stable currency.

Where the rate of exchange is stable, the basis taken is that a stated sum in the foreign currency is an exact equivalent of a given amount in sterling as, for example, 25·20 francs = £1 and similarly \$4·86$\frac{2}{3}$ also equals £1; the accounts of the foreign branch being converted into sterling on this basis. In other words a fixed rate of exchange is used for all items with the sole exception of remittances. Remittances to or from the branch are, of course, converted at the actual rate realised and, at the end of each trading period, the difference between the total amount realised and the total amount converted at the fixed rate is treated as a profit or loss on exchange and debited or credited as the case may be, to the branch profit and loss account.

A manufacturing company possesses a branch in Paris, supplying its manufactures at the same rate as charged to its English establishments. The Paris house pays all expenses of its establishment, including wages, duty on the goods imported from home, freight, advertising, etc. At the close of a year the following trial balance is prepared and forwarded to the English house to be incorporated into the general accounts of the company. For convenience the exchange may be taken as 25 francs equals £1, but it must be borne in mind that this rate has no relation to present-day conditions.

Stock at date is 28,000 francs. The head office account agrees with the corresponding debit in the books there. The differences, representing gains and losses on exchange arising from the remittances from Paris, will have been credited or debited to the branch in the home office account, the result forming part of the balance stated. The 55,000 francs sent home from time to time during the period covered by the trial balance represent, at 25, £2,200, whereas the several remittances have realised £2,210 10s., a gain of £10 10s., with which the Paris house is credited.

THE GAMMA COMPANY, LTD.

Trial Balance.—Paris Branch

31st August, 19..

	Francs.	Francs.
Head Office		180,000
Remittances to Head Office Account	55,000	
Buildings	75,000	
Plant, Furniture and Fixtures	15,000	
Sundry Debtors	20,000	
Sundry Creditors		7,000
Stock (as per last account)	23,000	
Sales		145,000
Purchases	75,000	
Salaries and Wages	18,000	
Duty on Goods received	13,000	
Advertising	10,000	
Trade Expenses	15,000	
Discounts	3,000	
Cash	10,000	
	332,000	332,000

When received, the head office will first proceed to convert the trial balance into another, showing the statement of the Paris books in English currency, as follows—

Trial Balance.—Paris House.

	£	s.	d.	£	s.	d.
Head Office				7200	0	0
Remittances Account	2210	10	0			
Buildings	3000	0	0			
Plant, Furniture and Fittings ..	600	0	0			
Sundry Debtors	800	0	0			
Sundry Creditors				280	0	0
Stock (as per last account)	920	0	0			
Sales				5800	0	0
Purchases	3000	0	0			
Salaries and Wages	720	0	0			
Duty	520	0	0			
Advertising	400	0	0			
Trade Expenses	600	0	0			
Discounts	120	0	0			
Gain on Exchange				10	10	0
Cash	400	0	0			
	£13290	10	0	£13290	10	0

Stock at date, £1120

The result of the year's working of the French house, and its indebtedness to the parent business, will be arrived at by journalising the items of the foregoing trial balance as far as the revenue items are concerned, whilst the respective debit and credit items representing the individual assets and liabilities, will be merely placed to the credit or debit of the Paris house in the head office books.

It has been decided to write off the following items for depreciation, and to reserve a percentage of book debts against discounts to be allowed.

4% off buildings.
10% ,, plant, furniture and fixtures.
2% ,, book debts; and £25 to be reserved for bad and doubtful debts.

These adjustments will be incorporated with the journal entries embodying the items shown in the trial balance.

					£ s. d.	£ s. d.
Paris Branch Capital Account, .. *Dr.*					6930 10 0	
To Paris Branch Trading Account ..						6930 10 0
	£	s.	d.			
Stock at date ..	1,120	0	0			
Sales	5,800	0	0			
Exchange a/c ..	10	10	0			
	6,930	10	0			

Corresponding entries must be made in the books of the foreign branch for this depreciation and the reserve, so that the accounts for the assets affected will be written down by the amounts charged to trading account from time to time.

These entries, when posted to the existing account in the books representing the branch's capital account, will exhibit the standing of that branch at the date of making up the accounts. The same adjusting entries must be made in the books of the branch, when the account with the head office will reveal the same position of affairs as between the two establishments.

JOURNAL

Paris Branch Trading Account, *Dr.*	£6501	0	0			
To Paris Branch Capital Account ..				£6501	0	0
Stock (last account) .. £920 0 0						
Purchases 3000 0 0						
Salaries and Wages .. 720 0 0						
Duty 520 0 0						
Advertising 400 0 0						
Trade Expenses .. 600 0 0						
Discounts 120 0 0						
Depreciation: Buildings 120 0 0						
Plant .. 60 0 0						
Reserves: Discounts .. 16 0 0						
Bad and Doubtful Debts .. 25 0 0						
£6501 0 0						
Remittances Account .. .. *Dr.*	2210	10	0			
To Paris Branch Capital Account .				2210	10	0
Paris Branch Trading Account ..	429	10	0			
To General Profit and Loss Account				429	10	0

It has been assumed throughout that the rate of exchange has been the same, viz., 25 francs = £1 : this was adopted to simplify matters. But in actual practice the rate of exchange, of course, varies from day to day, although normally within somewhat narrow limits. The amount standing to the credit of the branch's capital account or head office account at 180,000 francs, was represented in its English equivalent at the above rate as £7,200, as a debit against the branch in the head office books. This would be the state of affairs at the commencement of the period covered by the transactions we have disclosed, supposing the rate of exchange to have been exactly the same then. But as, owing to fluctuations, it was probably a different rate, some adjustment would have been necessary to bring matters into accord, prior to incorporating the branch's figures into the general accounts if the uniform rate of exchange we have used were not observed. This would be effected by crediting or debiting the branch's account, under the head of exchange, with the

difference between the rates existing at the two dates. This would have altered the amount we have shown to have been gained by the branch during the year on the amounts realised from time to time on remittance account. Such an arrangement as we have described would suffice for a business where the currency is on a stable basis and the rates of exchange move within narrow limits.

The consideration of the accounts of a foreign branch and their incorporation into the books of the parent concern will apply in the case of a provincial or other establishment of a company carrying on business on a similar footing, being for all intents and purposes a distinct and separate business. The only difference between the two classes of branches will be the elimination of the question of foreign exchange rates.

Where, however, the rate of exchange is unstable and fluctuating, different considerations apply. Both the head office and the foreign branch keep the accounts in their own currencies throughout the trading period at the end of which the branch renders to the head office a Trial Balance in the foreign currency which is converted into sterling at varying rates according to the nature and circumstances of the respective items. These rates are as follows—

Fixed Assets at the rate of exchange ruling when they were purchased, less depreciation, i.e. at the same rate as before.

Floating Assets and Liabilities at the rate of exchange current on the date of the balance sheet.

Revenue or Profit and Loss items at an average rate of exchange for the year or such other period as is covered by the accounts.

Goods or Stock in Trade supplied by the head office may be invoiced to the branch at an agreed fixed rate of exchange, or at the rate ruling when the goods were dispatched, or at an average rate, whichever method is the most equitable according to the prevailing circumstances.

Remittances are converted at the actual rate realised. The balance of the *Head Office Account* in the branch books

To Balance				7200	0	0
,, Paris Trading A/c.				6930	10	0
,, Creditors car. down				280	0	0
				14410	10	0
To Balance b/d ..				5699	0	0

PARIS TRADING AND

To Stock	£920	0	0			
,, Purchases ..	3000	0	0			
				3920	0	0
,, Duty	520	0	0			
,, Advertising ..	400	0	0			
,, Trade Expenses..	600	0	0			
				1520	0	0
,, Salaries & Wages.				720	0	0
,, Discounts ..				120	0	0
,, Depreciation and Reserves—						
Buildings ..	120	0	0			
Plant & Fixtures	60	0	0			
Discounts ..	16	0	0			
Bad Debts ..	25	0	0			
				221	0	0
,, Balance Net Profit (carried to General Profit and Loss A/c)				429	10	0
				6930	10	0

PARIS REMITTANCES

To Paris Branch Capital A/c.. ..				2210	10	0

CAPITAL ACCOUNT

By Remittances A/c				2210	10	0
,, Paris Trading A/c				6501	0	0
,, Sundry Assets c/d:						
Buildings £3000 0 0						
Less Depreciation.. 120 0 0	2880	0	0			
Plant, Furniture and Fittings £600 0 0						
Less Depreciation.. 60 0 0	540	0	0			
Debtors.. 800 0 0						
Less—						
2% Reserve Discts. £16						
Reserve for Bad Debts 25						
— 41 0 0	759	0	0			
Stock..	1120	0	0			
Cash	400	0	0			
				5699	0	0
				14410	10	0
By Balance b/d ..				280	0	0

PROFIT AND LOSS ACCOUNT

By Sales	5800	0	0			
,, Stock	1120	0	0			
				6920	0	0
,, Exchange ..				10	10	0
				6930	10	0

ACCOUNT

By Cash (received at various dates) .				2210	10	0

Dr.

SALES

			Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
19.. Jan.	31	To Returns Sundry Persons		30	10	8	15	9	10	6	9	3	52	9	9
		Balance to Trading and P. & L. Account		1553	0	1	933	0	3	777	13	10	3263	14	2
				1583	10	9	948	10	1	784	3	1	3316	3	11

PURCHASES

19.. Jan.	31	To Purchases, Sundry Persons		739	11	3	463	19	1	386	11	5	1590	1	9
				739	11	3	463	19	1	386	11	5	1590	1	9

WAGES AND COMMISSIONS

19.. Jan.	31	To Wages, etc., for month		120	3	10	78	3	6	65	10	3	263	17	7

RENT, RATES,

19.. Jan.	31	To Rent, etc... ..		85	10	3	48	6	3	35	10	9	169	7	3

FUEL, LIGHT,

19.. Jan.	31	To Sundries		25	10	3	12	9	8	8	6	5	46	6	4

REPAIRS AND

19.. Jan.	31	To Sundries		65	10	8	8	9	3	5	4	1	79	4	0

STOCK

19.. Jan.	1	To Stock on hand		3450	10	9	1258	10	1	859	6	7	5568	7	5
	31	To Stock on hand		3759	3	1	1468	12	11	968	19	5	6196	15	5

RINCIPLE, TO PROVIDE FOR BRANCH ACCOUNTS

COUNT

Cr.

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Sales, Sundry Persons		1583	10	9	948	10	1	784	3	1	3316	3	11
			1583	10	9	948	10	1	784	3	1	3316	3	11

COUNT

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Returns and Allowances, Sundry Persons ..		8	3	10	15	1	11	2	10	8	25	16	5
	By Balance to Trading and Profit & Loss Account ..		731	7	5	448	17	2	384	0	9	1564	5	4
			739	11	3	463	19	1	386	11	5	1590	1	9

COUNT

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Trading and Profit & Loss Account		120	3	10	78	3	6	65	10	3	263	17	7

XES AND INSURANCE

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Trading and Profit & Loss Account		85	10	3	48	6	3	35	10	9	169	7	3

D CLEANING

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Trading and Profit & Loss Account		25	10	3	12	9	8	8	6	5	46	6	4

NEWALS

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Trading and Profit & Loss Account		65	10	8	8	9	3	5	4	1	79	4	0

COUNT

		Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
31	By Trading Account		3450	10	9	1258	10	1	859	6	7	5568	7	5

Dr. FURNITURE AND FITTINGS

			Folio	Head Office.			Branch "A."			Branch "B."			Totals.		
19.. Jan.	1	To Balance		3859	10	6	1287	13	8	969	14	10	6116	19	0
	31	Sundries additions for month					58	10	2	138	14	7	197	4	9
				3859	10	6	1346	3	10	1108	9	5	6314	3	9
19.. Feb.	1	To Balances down..		3843	8	10	1340	15	11	1104	7	10	6288	12	7

TRADING AND PROFIT

19.. Jan.	1	To Stock on hand		3450	10	9	1258	10	1	859	6	7	5568	7	5
"	31	,, Purchases		731	7	5	448	17	2	384	0	9	1564	5	4
				4181	18	2	1707	7	3	1243	7	4	7132	12	9
"	31	*Less*, By Stock on hand		3759	3	1	1468	12	11	968	19	5	6196	15	5
				422	15	1	238	14	4	274	7	11	935	17	4
		,, Wages		120	3	10	78	3	6	65	10	3	263	17	7
		,, Rent, Rates, Taxes, and Insurance		85	10	3	48	6	3	35	10	9	169	7	3
		,, Fuel, Light, and Cleaning		25	10	3	12	9	8	8	6	5	46	6	4
		,, Repairs and Renewals ..		65	10	8	8	9	3	5	4	1	79	4	0
		,, Depreciation ..		16	1	8	5	7	11	4	1	7	25	11	2
		,, Balances carried to General Profit & Loss Account		817	8	4	541	9	4	384	12	10	1743	10	6
				1553	0	1	933	0	3	777	13	10	3263	14	2

ACCOUNT *Cr.*

			Folio.	Head Office.			Branch "A."			Branch "B."			Totals.		
19.. Jan.	31	By Profit & Loss 5% Depreciation p.a. for 1 month on values at 1st Jan. 1910..		16	1	8	5	7	11	4	1	7	25	11	2
"	"	" Balances carried down		3843	8	10	1340	15	11	1104	7	10	6288	12	7
				3859	10	6	1346	3	10	1108	9	5	6314	3	9

AND LOSS ACCOUNT

19.. Jan.	31	By Net Sales		1553	0	1	933	0	3	777	13	10	3263	14	2
				1553	0	1	933	0	3	777	13	10	3263	14	2

is converted at the figure at which it is included in the head office books, i.e. the same rate as before.

Any difference between the total debits and credits arising from the conversion at these varying rates is entered in the sterling trial balance as "Difference on Exchange." Where the difference is small in amount, it may be written off to debit or credit (as required) of the branch profit and loss account. With fluctuating currencies, however, it is more usual to write off losses on exchange to the debit of profit and loss account, whilst profits (credit balances) on exchange are carried forward as a reserve against future possible losses.

As previously stated, the head office and branch each keep their respective accounts in their own currency, but it is a convenient practice for the remittance account and the branch account in the head office books to be ruled with additional columns to record the local currency and rates of exchange as well as the sterling figures. The foregoing principles are exemplified in the following example.

Rio de Janeiro Trial Balance.	*Dr.*	*Cr.*
	Milreis.	Milreis.
Land and Buildings	75000	
Fittings and Fixtures	10000	
Stock of Goods at 1 Jan.	35250	
Sundry Debtors	180540	
Sundry Creditors		92600
Bills Receivable	45860	
Bank Balance	46850	
Cash in hand	2160	
Head Office Account		340000
(In H.O. Books £22312 10 0)		
Remittances to London		
(Realised £5578 2 6)	85000	
Goods received from London	12500	
(Invoiced at £8072 18 4)		
Purchases locally	45000	
Sales		364000
Wages and Salaries	95000	
Bad Debts	3600	
Trade Expenses	45500	
Discounts	1840	
Milreis	796600	796600

The Welland Co., Ltd., has a branch at Rio de Janeiro and at 31st December, 19.., renders the foregoing Trial Balance to its head office in London for incorporation in the head office books.

Fixed assets are to be converted at rate ruling when purchased (16d. per milreis); stock at 1st Jan. at previous rate (15¾); revenue items at the average rate (15d.); floating assets and liabilities at closing rate (15½). Depreciation on lands and buildings is to be provided for at 5% and on fittings and fixtures at 10%.

Closing stock at 31st December is valued at 39,000 milreis.

N.B.—The rates of exchange given are merely used as convenient; they bear no relation to present-day conditions.

The Sterling Trial Balance will appear as follows—

31st December, 19..	Conversion Rate.	Dr.			Cr.		
	d.	£	s.	d.	£	s.	d.
Land and Buildings ..	16	5000	0	0			
Fittings and Fixtures ..	,,	666	13	4			
Stock of Goods at 1 Jan. ..	15¾	2313	5	7			
Sundry Debtors	15½	11659	17	6			
Sundry Creditors	,,				5980	8	4
Bills Receivable	,,	2961	15	10			
Bank Balance	,,	3025	14	7			
Cash in hand	,,	139	10	0			
[1]Head Office Account ..	—				22312	10	0
[1]Remittances to London ..	—	5578	2	6			
[1]Goods received from London	—	8072	18	4			
Purchases locally	15	2812	10	0			
Sales	,,				22750	0	0
Wages and Salaries	,,	5937	10	0			
Bad Debts	,,	225	0	0			
Trade Expenses	,,	2843	15	0			
Discounts	,,	115	0	0			
Exchange Account (Profit)					308	14	4
		£51351	12	8	£51351	12	8

[1] These items are converted at the figures appearing in Head Office Books.

	JOURNAL.	*Dr.*			*Cr.*		
		£	*s.*	*d.*	£	*s.*	*d.*
19..							
Dec. 31	Rio Branch Profit and Loss Account *Dr.*	22636	12	3			
	To Rio Branch Account						
	for transfer of under noted items—						
	Milreis						
	Stock of Goods at 1 Jan. .. 35250 at Ex. 15¾d.				2313	5	7
	Goods from H.O. .. 125000 „ 15d.				8072	18	4
	Purchases .. . .. 45000 „ 15d.				2812	10	0
	Wages and Salaries .. 95000 „ 15d.				5937	10	0
	Discounts .. .. .. 1840 „ 15d.				115	0	0
	Bad Debts .. .. .. 3600 „ 15d.				225	0	0
	Trade Expenses .. .. 45500 „ 15d.				2843	15	0
	Depreciation—						
	Land and Buildings .. 3750 „ 16d.				250	0	0
	Fittings and Fixtures .. 1000 „ 16d.				66	13	4
	355940						
Dec. 31	Rio Branch Account *Dr.*						
	To Rio Branch Profit and Loss Account				25268	15	0
	for transfer of undernoted items—						
	Milreis						
	Sales .. .. .. 36400 at Ex. 15d.	22750	0	0			
	Stock at 31 Dec. .. .. 39000 „ 15¾d.	2518	15	0			
Dec. 31	Rio Remittances Account *Dr.*	5578	2	6			
	To Rio Branch Account				5578	2	6
	for transfer of total remittances 85000 milreis						

Dr. RIO BRANCH ACCOUNT *Cr.*

19..		*Milreis*	£	*s.*	*d.*	19..		*Milreis*	£	*s.*	*d.*
Dec. 31	To Balance b.f. . . .	340000	22312	10	0	Dec. 31	By Rio Profit and Loss Account . . .	355940	22636	12	3
,, 31	To Rio Profit and Loss Account	403000	25268	15	0	,, 31	By Remittances . . .	85000	5578	2	6
						,, 31	By Balance c.d. . . .	302060	19366	10	3
		743000	£47581	5	0			743000	47581	5	0
Dec. 31	To Balance [1] . . .	302060	19366	10	3						

	Milreis	£	*s.*	*d.*
[1] This balance consists of Sundry Assets . . .	394660	25655	12	11
Less Liabilities and Exchange Reserve . .	92600	6289	2	8
	302060	£19366	10	3

Dr. RIO REMITTANCES ACCOUNT *Cr.*

			£	*s.*	*d.*				£	*s.*	*d.*
Dec. 31	To Rio Branch Account .	85000	5578	2	6	During year	[1]By cash received at various dates	85000	5578	2	6

[1] In practice, details of each separate remittance with rate of exchange will be shown.

Dr. EXCHANGE RESERVE ACCOUNT *Cr.*

									£	*s.*	*d.*
						Dec. 31	By Profit on Exchange .		308	14	4

RIO BRANCH PROFIT AND LOSS ACCOUNT

FOR YEAR ENDED 31ST DECEMBER, 19..

Dr. *Cr.*

	Milreis	£	*s.*	*d.*		*Milreis*	£	*s.*	*d.*
To Stock at 1 Jan.	35250	2313	5	7	By Sales	364000	22750	0	0
,, Goods from Head Office	125000	8072	18	4	,, Stock	39000	2518	15	0
,, Purchases	45000	2812	10	0					
,, Wages and Salaries	95000	5937	10	0					
,, Discounts	1840	115	0	0					
,, Bad Debts	3600	225	0	0					
,, Trade Expenses	45500	2843	15	0					
,, Depreciation—									
Land and Buildings	3750	250	0	0					
Fittings and Fixtures	1000	66	13	4					
,, Balance = Net Profit	47060	2632	2	9					
	403000	£25268	15	0		403000	£25268	15	0

BALANCE SHEET OF RIO BRANCH

AS AT 31ST DECEMBER, 19..

Capital and Liabilities.	*Milreis*	£	*s.*	*d.*	£	*s.*	*d.*
Sundry Creditors . . .	92600				5980	8	4
Head Office Account . .		22312	10	0			
Add Net Profit . . .		2632	2	9			
		24944	12	9			
Less Remittances . .		5578	2	6			
	302060				19366	10	3
Exchange Reserve Account .					308	14	4
	394660				£25655	12	11

Property and Assets	*Milreis*	£	*s.*	*d.*
Land and Buildings . .	71250	4750	0	0
Fittings and Fixtures . .	9000	600	0	0
Stock-in-trade . . .	39000	2518	15	0
Sundry Debtors . . .	180540	11659	17	6
Bills Receivable . . .	45860	2961	15	10
Bank	46850	3025	14	7
Cash	2160	139	10	0
	394660	£25655	12	11

CHAPTER XVII

BALANCING SHARE LEDGERS

At certain periods of the financial year, such as at dividend distributions, or when compiling the annual return of members, the share accounts of all persons holding shares in the company, or in the case of an interim dividend, those members having shares upon which such a dividend is to be paid, must be agreed with the total amount of shares for each class as shown in the private books. Should the company be a small one, or where the members' accounts are few, this can be accomplished easily by preparing the dividend list off hand, as no difficulty should be experienced in making the total number of the shares at the termination of the list coincide with the issue. When, however, the share accounts are numerous, a systematic method must be employed to ensure that the transfer and allotment entries have been correctly made; just in the same way as ordinary accounts in everyday business routine require methodical means to be provided on the self-balancing principle, should more than one share ledger be in use. With only one ledger, it is necessary, however, to take some steps, as we shall now show, to ascertain its correctness before a dividend list or annual return is prepared from the balances in that ledger. We will deal with the self-balancing principle to be applied in the case of a multiplicity of ledgers at a later stage in this chapter.

Presuming that we have to deal with a case of compiling a dividend list for a company whose members number about two hundred or so, their accounts being contained within the compass of one register, we shall proceed upon the following lines. Extract, in serial order, in the form of a trial balance, the folios and balances of shares of such accounts as remain open throughout the register. If the entries and balances abstracted have been accurately recorded, the total number

of shares issued will be arrived at by casting the balances appearing in such a trial balance. Closed accounts may be ignored, but if the list is prepared for the purpose of making out the annual list of members, regard must be had to such closed accounts as are required by law to figure therein, e.g. all those members whose shares were disposed of since the date of the last annual return; or, in the case of a first return, all accounts must then be noted. For the purpose of dividends, however, closed accounts may be left out of the question, the object of the trial balance in such an instance being to arrive at the existing share accounts.

To prepare such a trial balance we shall proceed in the following manner—

TRIAL BALANCE SHARE REGISTER

Folio.	Shares.	Folio.	Shares.	Folio.	Shares.
1	25	et	c.	et	c.
	150				
2	1000				
3	15				
	60				
4	300				
5	75				
	160				
6	90				
7	100				
	500				
et	c.				

By providing a suitable number of such columns, the balances of 100 to 150 ledger accounts may be accommodated within the space of a foolscap sheet, and such a list may be compiled in a very short time. If the total agrees, the list of dividends may be proceeded with, the trial balance serving as guide or key to the accounts which have to appear therein. Thus, on folio 1, both accounts figure in the list, assuming that each folio of the register contains two accounts, on folio 2 only one account, and so on.

With a large number of shareholders, involving more than one register for each class of share, much more extended

precautions are necessary. Trial balances would be extracted from each register in the same way as that just described, and a separate list of balances prepared for each. To render the possibility of a quick agreement of the whole share accounts, the necessity of introducing the self-balancing, or adjustment principle becomes apparent. It is evident that if, after extracting the whole of the balances from each register, a difference exists, a much longer task must be involved in searching through the whole, than where it is possible by the adjustment plan to localise the difference to any particular register; or if they all happen to be wrong, to ascertain the actual difference existing in each, thus providing the means of correcting the errors of one book before the next is dealt with, until the whole have been adjusted to agree with the total number of the shares in circulation.

If it is known that more than one register will ultimately be brought into use before the period of balancing comes along, steps should be taken to provide the means for analysing the postings from the transfer register to the share ledgers. We must recollect that the function of the transfer register is identical with the journal as used in everyday book-keeping, and once the entries from the allotment list have been completed, this register is the only book of entry affecting the members' share accounts. The principles of self-balancing share registers are consequently of a simpler nature than those to be employed for the books dealing with the ordinary financial matters, where journals, cash books, sales books, invoice or bought books and bill registers have to be considered. With only one source from which entries are made the necessary preparations are quickly effected.

To take a moderate instance, it may be imagined that a company, recently promoted, is about to close its registers for the first time for the purpose of paying an interim dividend. The number of shares involved is 150,000 held by, say, 2,000 members whose accounts are contained, for the present (remembering that the accounts will be constantly increasing), within the space of three registers with a capacity of 800

openings in each. All three are full so that about 400 accounts will have been closed. The number of shares posted to each register from the allotment list will be known from that point in the list where the capacity of each register was exhausted. It only remains at the balancing period to add to those allotments in a given register the number of shares subsequently posted to the accounts of transferees or members acquiring shares; then to deduct from the sum thus arrived at, the number of shares disposed of by transferors, to obtain a result which, if all has been correctly entered, will agree with the balances of the accounts in that register. The analysis of postings from the transfers will be best effected in the following way—

ANALYSIS OF TRANSFER POSTINGS.

Reg. folio 19.

Transferees' Accounts.					Transferors' Accounts.			
Register 1	Register 2	Register 3	Register 4	Shares	Register 1	Register 2	Register 3	Register 4
	50			50			50	
10				10		10		
	75			75			75	
100				100		100		
		15		15	15			
		20		20	20			
		35		35		35		
		60		60			60	
75				75	75			
		80		80		80		
		120		120	120			
		15		15	15			
	10			10			10	
		150		150		150		
185	135	495		815	245	375	195	

It will be a great convenience if the analysis sheets are ruled so as to provide for the same number of entries as appear on each page of the transfer register. It thus becomes possible to check the totals of each at frequent stages, or, to save space, the analysis may be more congested in such a way

as to contain on each sheet the contents of two or even three folios of the transfer register, but in any case the lateral rulings should be either twice or thrice the number contained in the register, as the case may be. If three times, then the total of each sheet will agree with the total of every third page of the register.

The sum of the three right-hand columns will agree with the sum of the three on the left-hand side of the central column which may be dispensed with if thought advisable; it has been inserted here as a means of showing the total represented by the transfers dealt with on the sheet.

The foregoing analysis relates to alterations in members' share accounts as a result of transfers, but alterations in the accounts may also arise from other causes, as for example—

(1) Transmission of shares on the death of a member; or

(2) Changes of name on the marriage of a female shareholder, e.g. Miss A. Brown becoming Mrs. A. Smith and necessitating the transfer of her accounts from No. 1 Share Register to No. 4 Register.

Some companies, by their regulations, require transmission of shares to be evidenced by a deed of transfer, but many companies accept a "Letter of Request" signed by the executors and in such a case a separate "Register of Executor's Request" is used. A separate register is also used for "Changes of Names" and these registers will require analysis in the same manner as the Register of Transfers.

When carried out at the end of the period prior to balancing, the totals of shares posted to the debit and credit of each register will be known. Dealing with register number 1 as an example, we will assume that the total shares entered into it as allotments were—

Add.	Postings to transferees' accounts	80000
	Transfer Register	21000
	Executors' Requests	8000
	Changes of Name	2000
	Carry forward	111000

Brought forward		111000
Less. Postings from transferors' accounts—		
Transfer Register	37000	
Executors' Requests ..	6000	
Changes of Name	3000	
		46000
Leaving		65000

which should agree with the total balances extracted from that register.

CHAPTER XVIII

FROM TRIAL BALANCE TO BALANCE SHEET

We shall assume that our readers have thoroughly grasped the principles of adjustment accounts or balancing the various ledgers by sectional stages as enunciated in Chapter XIV. Having done so, the next step is to consider the work involved in preparing the accounts for consideration by the Board, and, at a later stage, to formulate those accounts for presentation to the shareholders or for publication. In perusing the chapter on adjustment accounts, above referred to, it will be apparent that the personal accounts having been agreed at the stage at which we then arrived (the balances of bought and sold ledgers being shown in either the impersonal or general ledger, or again, if a very large business, in a special balance ledger kept for the purpose, such as previously described), it will next be necessary, after completing all postings, to extract the balances from the impersonal ledgers, i.e. whether described as impersonal, general, or private. In so doing, it must be remembered that the balances of the whole of the ledgers will be embodied in one composite whole in the form of a trial balance which must first be drawn up and agreed. From this list of balances the financial position is first considered, and from it many necessary adjustments are generally found expedient before the final accounts can be drafted in the form of manufacturing or production accounts, trading account, profit and loss account and Balance Sheet.

It will be instructive again to take the case of an industrial concern, owning a factory, with a distinct selling department, for upon such a basis the majority of our great manufacturing concerns are now conducted. More frequently it is found that a company has removed its factory to a position comparatively remote from its point of distribution, for the purpose of economy in the matter of cheaper land with its concomitant lower rent and rates, and for the advantage of its factory hands where the bulk of the labour bill is in all

probability spent. Its warehouse and executive offices will be found in the centre of some city or town for the better convenience of marketing its wares and for the greater facilities of conducting its business generally.

The trial balance of such an imaginary company is here given. The figures are, however, mainly based upon those shown by the accounts of a well-known and highly successful and old-established business, conducted on the most approved and up-to-date methods. From this trial balance some after adjustments will be made before we consider the Manufacturing, Trading, Profit and Loss Accounts and Balance Sheet, which will be prepared from it. In practice, most of these would be effected before attempting to balance, but in this case it will be instructive to consider them in the manner indicated.

SCOTT, DICKENS & SWAIN, LIMITED

TRIAL BALANCE, 31ST DECEMBER, 19..

	Dr.			Cr.		
Private Ledger—						
Goodwill, Trade Marks, Designs, etc.	55000	0	0			
Machinery, Plant	150000	0	0			
Freehold property and buildings, Walthamstow Works ..	70000	0	0			
Do. do. Warehouse, Longacre, W.C.1	50000	0	0			
Leasehold property, Manchester and Glasgow Depôts ..	12500	0	0			
Fixtures and Furniture	1500	0	0			
Loose tools and portable plant	12000	0	0			
Ordinary Share Capital paid up				220000	0	0
Preference Shares do. do.				90000	0	0
5 % Debenture Stock				100000	0	0
Sinking Fund Account				25000	0	0
Investment Account	25000	0	0			
Revenue Reserve Account (Equalisation of Dividends)				16000	0	0
General Reserve				28000	0	0
Investments in General Reserve Trust Funds (Redemption of Debentures)	37500	0	0			
Stock-in-trade, Jan. 1st, 19.. .. Dept. A £11000						
„ B 16000						
„ C 21500						
———	48500	0	0			

TRIAL BALANCE (*continued*)

	Dr.			Cr.		
Stores, Jan. 1st, 19.. .. Dept. A £2000; „ B 7500; „ C 4000	13500	0	0			
Profit and Loss Account ..				5000	0	0
Sundry Debtors, A—F Ledger ..	7500	0	0			
Do. G—L do. ..	2000	0	0			
Do. M—R do. ..	5000	0	0			
Do. S—Z do. ..	6000	0	0			
Do. Foreign do. ..	3000	0	0			
Sundry Creditors, A—L do. ..				2800	0	0
Do. M—Z do. ..				4300	0	0
Deposit at bank	37000	0	0			
Cash	8700	0	0			
General Ledger—						
Sales, A Dept.				57500	0	0
Do. B do.				39000	0	0
Do. C do.				110000	0	0
Do. Residues and Waste ..				1200	0	0
Materials, A Dept.	9000	0	0			
Do. B do.	6500	0	0			
Do. C do.	16000	0	0			
Wages, A Dept.	17000	0	0			
Do. B do.	12500	0	0			
Do. C do.	29500	0	0			
Power, Light, and Heat, A Dept.	1000	0	0			
Do. do. B do.	800	0	0			
Do. do. C do.	1700	0	0			
Salaries at factory	1200	0	0			
Repairs and renewals at factory	1950	0	0			
Rates, taxes, and insurances do.	850	0	0			
Upkeep of Steam lorries and garage	1100	0	0			
Depreciation of plant, etc., do.	15000	0	0			
Sundry expenses do.	2000	0	0			
City Office and warehouse salaries and wages	3500	0	0			
Travellers' salaries, expenses, and commission	2850	0	0			
Advertising Account	5000	0	0			
Rates, taxes, and insurance ..	1295	0	0			
Printing and stationery	1460	0	0			
Depreciation, furniture, etc. ..	150	0	0			
Postages, etc.	585	0	0			
Transfer fees, etc..				120	0	0
Directors' fees	1000	0	0			
Trade and sundry expenses ..	2000	0	0			
Debenture interest	5000	0	0			
Discounts	7000	0	0			
Carriage	8280	0	0			
	698920	0	0	698920	0	0

It will be assumed the foregoing trial balance represents the state of the Company's books on the 31st December, 19. ., and that it has been prepared entirely for the purposes of—

(i) Ascertaining the correctness of the books, and

(ii) Providing a list of the various items which will comprise the statement of the company's liabilities and assets, and the result of its business operations since the date of the last balance sheet.

It is desired in the present instance to draw up a manufacturing, or production account, trading account, profit and loss account, and balance sheet. The manufacturing and trading accounts are to show the results of working of each of the three departments. The amount of Stock-in-trade and Stores on hand on 31st December, 19. ., was as follows—

	Stock-in-trade. £	s.	d.	Stores. £	s.	d.
Dept. A	10000	0	0	2500	0	0
„ B	17000	0	0	6000	0	0
„ C	18000	0	0	4500	0	0
	£45000	0	0	£13000	0	0

Depreciation being in the present case determinable on the basis of book values at the commencement of the period under review, it is included in the trial balance as shown. The administrative and overhead charges of the factory are borne by the three departments in the following proportion A$\frac{6}{21}$, B$\frac{4}{21}$, C$\frac{11}{21}$, the expenses of the city establishment not being departmentalised.

A further £12,500 is to be written off to the Sinking Fund (Debentures Account), being the current year's instalment of the sum which, invested at 4 per cent in suitable securities will ultimately produce the total amount required to redeem the debentures at their maturity. (See Debentures, Chapter IX.)

Five per cent is to be reserved for discounts to be allowed to debtors, less $2\frac{1}{2}$ per cent for discounts to be received from

SCOTT, DICKINS, AND

BALANCE SHEET

LIABILITIES.	£	s.	d.	£	s.	d.
Authorised Capital—						
250,000 £1 Ordinary Shares	250000	0	0			
100,000 £1 Preference Shares	100000	0	0			
	350000	0	0			
Capital Issued—						
220,000 £1 Ordinary Shares fuly paid	220000	0	0			
90,000 £1 Preference Shares fully paid ..	90000	0	0			
				310000	0	0
5 % *Debenture Stock—*				100000	0	0
Sinking Fund as at Jan. 1st, 19..	25000	0	0			
Amount now added ..	12500	0	0			
				37500	0	0
General Reserve Account ..				28000	0	0
Revenue Reserve (equalisation of Dividends) ..				16000	0	0
Trade Creditors				6923	0	0
Profit and Loss Account—						
Balance at 1st Jan. ,19.. ..	5000	0	0			
Add Profit for the year as per Profit & Loss Account	36102	0	0			
				41102	0	0
			£	539525	0	0

SWAIN, LIMITED

YEAR ENDED 31ST DECEMBER, 19..

ASSETS.	£	s.	d.	£	s.	d.
Goodwill, Trade Marks and Designs				55000	0	0
Freehold Property and Buildings—						
Walthamstow	70000	0	0			
Long Acre..	50000	0	0			
				120000	0	0
Leasehold Property—Manchester and Glasgow ..				12500	0	0
Machinery and Plant as at Jan. 1st, 19..	142000	0	0			
Additions during year ..	23000	0	0			
	165000	0	0			
Less Depreciation ..	15000	0	0			
				150000	0	0
Loose Tools and Portable Plant				12000	0	0
Fixtures and Furniture, Jan. 1st, 19..	1400	0	0			
Additions	250	0	0			
	1650	0	0			
Less Depreciation ..	150	0	0			
				1500	0	0
Investments—						
British and Colonial Government Securities ..	10000	0	0			
British Railway Stocks..	3000	0	0			
English Corporation Loans	8500	0	0			
Industrial Shares.. ..	3500	0	0			
(Present market value, £24,650.)				25000	0	0
Investments in Trust Funds (Debenture Redemption)				37500	0	0
Stock-in-trade and Stores ..				58000	0	0
Trade Debtors	23500	0	0			
Less Reserve for discounts, etc.	1175	0	0			
				22325	0	0
Cash at Bank—						
Deposit Account.. ..	37000	0	0			
Current Account.. ..	8700	0	0			
				45700	0	0
			£	539525	0	0

Dr. MANUFACTURING ACCOUNT.

Date	Particulars				A Dept.			B Dept.			C Dept.		
19.. Dec. 31	To Stores on hand, Jan. 1st, 19..				2000	0	0	7500	0	0	4000	0	0
,, ,,	,, Materials purchased ..				9000	0	0	6500	0	0	16000	0	0
					11000	0	0	14000	0	0	20000	0	0
	Less Stores on hand at date..				2500	0	0	6000	0	0	4500	0	0
	Net consumption				8500	0	0	8000	0	0	15500	0	0
,, ,,	,, Wages				17000	0	0	12500	0	0	29500	0	0
,, ,,	,, Power, Light, and Heat ..				1000	0	0	800	0	0	1700	0	0
,, ,,	,, Salaries	1200	0	0									
,, ,,	,, Repairs and Renewals ..	1950	0	0									
,, ,,	,, Rates, Taxes, and Insurances	850	0	0									
,, ,,	,, Upkeep of Steam Lorries and Garage.. ..	1100	0	0									
,, ,,	,, Depreciation of Plant and Machinery ..	15000	0	0									
,, ,,	,, Sundry Expenses	2000	0	0									
		22100	0	0									
	Dept. A, $\frac{6}{21}$ say				6314	0	0						
	,, B, $\frac{4}{21}$ say							4210	0	0			
	,, C, $\frac{11}{21}$ say										11576	0	0
					32814	0	0	25510	0	0	58276	0	0

TRADING ACCOUNT.

Dr.

Date	Particulars				A Dept.			B Dept.			C Dept.		
19.. Dec. 31	To Stock on hand, 1st Jan., 19..				11000	0	0	16000	0	0	21500	0	0
,, ,,	,, Manufacturing Acct. balance brought down				32471	0	0	25281	0	0	57648	0	0
,, ,,	,, Balances carried down, being gross profits ..				24029	0	0	14719	0	0	48852	0	0
					67500	0	0	56000	0	0	128000	0	0

YEAR ENDED 31ST DECEMBER, 19..

Cr.

					A Dept.			B Dept.			C Dept.		
19.. Dec. 31	By Sales of Residues and Waste ..	1200	0	0	343	0	0	229	0	0	628	0	0
,, ,,	,, Balance carried to Trading Account, being *net* cost of production				32471	0	0	25281	0	0	57648	0	0
					32814	0	0	25510	0	0	58276	0	0

YEAR ENDED 31ST DECEMBER, 19..

Cr.

19.. Dec. 31	By Stock on hand at date ..				10000	0	0	17000	0	0	18000	0	0
,, ,,	,, Sales				57500	0	0	39000	0	0	110000	0	0
					67500	0	0	56000	0	0	128000	0	0

PROFIT AND LOSS ACCOUNT

Dr. *(Not for Publication)*

19.. Dec. 31	To Salaries and Wages	3500	0	0			
	" Travellers' Salaries, Expenses and Commission ..	2850	0	0			
	" Advertising ..	5000	0	0			
					£11350	0	0
	" Discounts	7998	0	0			
	" Carriage	8280	0	0			
					16278	0	0
	" Rates, Taxes, and Insurances ..	1295	0	0			
	" Printing and Stationery	1460	0	0			
	" Depreciation on Furniture . ..	150	0	0			
	" Postages	585	0	0			
	" Trade Expenses ..	2000	0	0	5490	0	0
	" Directors' Fees ..	1000	0	0			
	" Debenture Interest	5000	0	0			
	" Do. Redemption Sinking Fund	12500	0	0			
					18500	0	0
	" Balance being net profit to Balance Sheet				36102	0	0
					£87720	0	0

PROFIT AND LOSS ACCOUNT

Dr. *(Condensed for Publication)*

19.. Dec. 31	To Rates, Taxes, Insurance, General Trade Expenses, and Depreciation	5490	0	0
	" Directors' Fees	1000	0	0
	" Debenture Interest..	5000	0	0
	" " Redemption Sinking Fund ..	12500	0	0
	" Balance being net Profit for the year ..	36102	0	0
		£60092	0	0

trade creditors. Steps have been taken to ensure that all liabilities have been included up to the date of the trial balance and that such items as rates, taxes, and insurance represent in all cases the period covered by the revenue account. The first account to prepare is the manufactuning account, which may be conveniently given in tabular form to show the net cost of producing the goods appertaining to the respective

YEAR ENDED 31ST DECEMBER, 19..

Cr.

19.. Dec. 31	By Balances, Gross Profit brought down: Dept. A	24029	0	0			
	,, B	14719	0	0			
	,, C	48852	0	0			
					87600	0	0
	,, Transfer Fees ..				120	0	0
					£87720	0	0

YEAR ENDED 31ST DECEMBER, 19..

Cr.

19.. Dec. 31	By Profits for the year	59972	0	0
	,, Transfer Fees	120	0	0
		£60092	0	0

departments ; the resulting balances from this account representing the cost of the goods as delivered to the city establishment for distribution or warehousing, as the case may be. The various items known as overhead charges at the factory will be grouped together and then divided in the above ratio.

There is another, though only slightly modified, description of trial balance which offers some advantages over the orthodox form. Instead of taking the balances from the ledgers in strict rotation on to one form as given on page 219 the balances are divided under three or more headings: (1) capital items or those which figure in the Balance Sheet; (2) all balances comprised in the manufacturing account; (3) items of the trading account; (4) items for the profit and loss account and, possibly, (5) any balances which strictly appertain to the appropriation of profit and loss. The greatest advantage to be derived from extracting the trial balance in such a manner is that some indication of profit earned or loss sustained is, perhaps, more quickly arrived at; because, in the absence of such a segregation of balances, no means are available for quickly ascertaining these results until the balance sheet and profit and loss accounts have been drafted. Another advantage is that, owing to convenient groupings, it is a much simpler matter to draft the final accounts.

The Balance Sheet, Manufacturing, Trading, and Profit and Loss Accounts appearing on pages 222-7 are in the form for presentment to the Board, but in practice the revenue accounts should be supplemented with comparative figures for the previous year, as well as percentage calculations (worked upon the basis of net turnover) against each item of expense. It is, perhaps, a better plan to draw up the accounts as shown here, and supplement them with a tabulated revenue account giving the current year's figures with comparisons for one or more years, and with percentages against each item for each year side-by-side in separate columns. Another method is to prepare the accounts on widely ruled paper, and to state the comparative figures and percentage ratios for former years in different coloured inks immediately underneath the figures for the year under review. Whatever means are adopted, the directors must be provided with the fullest information at the time of the audit, and no pains should be spared to make such returns as complete and concise as

possible, full regard, of course, being had to the most scrupulous accuracy in every statement and figure.

There is a great distinction between drawing up the Balance Sheet and Accounts for consideration by the directors, and preparing from that Balance Sheet and Accounts a similar but nearly always modified form for presentment at the shareholders' meeting and for publication. In the first instance the fullest information must be forthcoming in order to give the directorate as much guidance as possible in their deliberations on this all-important topic, whilst in the case of the Balance Sheet and Accounts for publication a great deal of careful discrimination needs to be exercised in order to decide what shall and what shall not be divulged, though in every case the fullest information should be given in regard to the items figuring in the Balance Sheet. The section of the published accounts which, in the majority of industrial and commercial concerns, needs a good deal of curtailment, is that dealing with revenue. It is very rarely found that such companies publish amongst their shareholders any information which would give any indication of their turnover or the cost or volume of production. It is, indeed, seldom found that gross profits, properly so considered, are given with the Balance Sheet. The most usual method of stating the earnings for the year is " By Profit on trading for the year," against which will appear the expenses of administration, depreciation, etc., sometimes bracketed together, at others set out *in extenso*. The purpose of thus condensing the published accounts is to withhold any sort of information as to the economic working of the business, which, if in the possession of competitors, would obviously be very harmful to the concern. It is very desirable that once the line of demarcation has been decided upon, it should be rigidly adhered to in after years, or an accurate comparison of profits as presented to the members would be impossible. Many very delicate and subtle questions arise in connection with the form of published accounts ; for example, the board may consider it undesirable, and with every reason, to state what amount

had been spent on, say, advertising, not from any desire on their part to withhold from the members the knowledge of the extent of any given expenditure, but solely because it would be unsound policy to place such information at the disposal of competitors. It must never be forgotten that with public companies, a member is often also a competitor. Unfortunately, owing to the many diverse factors which enter into the circumstances of each individual case, it is impossible to lay down any hard and fast rule. But a primary principle to be kept constantly in view whenever this question arises is, "Tell your shareholders as much as is consistent with safety."

The compilation of the Balance Sheet is a subject which calls for very careful and searching consideration by all concerned. No stereotyped form exists, nor do the statutes require the statement of liabilities to be given in any particular sequence. The old Table A contained what was termed a statement in the form of a Balance Sheet, and gave the order and manner in which liabilities and assets were to be set out. The new Table A does not give this, and it may safely be said that the "suggestion" embodied in its forerunner was practically ignored. There is, however, a marked tendency to follow some kind of method in its presentment, but this has been the outcome of more or less settled principles adopted by the accountancy profession itself. Balance Sheets, as now prepared by all the most capable authorities will, almost without exception, be found to display the assets in a sequence the order of which either denotes the ease of realisability or the reverse, usually the latter; that is to say, the assets are generally displayed in such a way as will give those most readily converted into immediate use, last; whilst the liabilities are ranged with the shareholders' claims appearing first. The order usually adopted is shown on the next page. When displaying the assets it is customary to state, in the case of Freehold Property, Plant, Fixtures, etc., the balance as at the commencement of the year, plus any additions, less the depreciation for the same period. In some cases these assets are treated more fully; the original cost is first given

Liabilities.

Permanent Liabilities.

Paid Up Capital.
(If all the nominal capital has not been issued the nominal or full authorised capital should be carefully stated as on page 220.)

Debentures on Loans.

Transacting Liabilities.

Sundry or Trade Creditors.

Reserves or Surplus Liabilities.

Reserve Funds (in order of their realisability).

Balance on P. & L. A/cs.

Assets.

Fixed Assets of Presumptive Existence.

Goodwill. Patents or Trade Marks. Leases.

Fixed and Material Assets.

Freehold Land, Buildings, Plant, Machinery or Fixtures.

Floating or Transacting Assets.

Stores and Stock-in-trade,
Investments.
Debtors.
Cash.

to which is added any additions to the date of the last Balance Sheet, afterwards adding additions for the year under review, the depreciation being similarly treated by giving amounts depreciated to the last account and the amount written off in the current year. Thus—

Plant and Machinery at cost from Vendors		£10000 0 0	
Plus additions to 31 Dec., 19..	£1000 0 0		
,, ,, to 31 Dec., 19..	400 0 0		
		1400 0 0	
		11400 0 0	
Less.			
Depreciation to 31st Dec., 19.. ..	£1600 0 0		
Depreciation to 31st Dec., 19.. ..	1700 0 0		
		3300 0 0	
			£8100 0 0

Although there are few Balance Sheets which display assets in such extended detail, a good deal must be said in favour of it, as the shareholder is given the fullest information, not only of the existing book values but of the past history of those assets.

The current market value of investments should always be stated, and if any depreciation has been written off, either previously or in the year being dealt with, the amount of depreciation ought to be stated in each case. Where an investment has been made as a set-off against any reserve or sinking fund it should be so stated and kept distinct from securities held for general purposes.

The item of stock-in-trade or stores must always be stated as having been vouched for by the managing director or secretary, or by responsible managers, and some statement should follow as to the basis of valuation, i.e. " at or below cost." Trade discounts and any cash discounts should always be deducted before arriving at cost prices in the stock lists.

Trade Debtors must be stated less any deductions to be allowed for in respect of bad or doubtful debts, and also for reserve for discounts to be allowed. Bills Receivable must be separately shown, but as part of the total under the heading of Trade Debtors, if the bills are held for ordinary book debts ; but where bills are held in the nature of accommodation bills or for loans advanced, then it is an open question whether they should not be so specified quite distinct from trade debts.

On the other side of the Balance Sheet the fullest statement of the company's obligations to its shareholders is necessary. Information as to both nominal or authorised capital of each denomination must first appear, or where the whole of the share capital has been issued it should be referred to as " capital authorised and issued." The nominal amount per share of each class, and the amount per share called up, must be stated, less any calls which may be in arrear ; and where calls have been paid in advance these should be added to appear last in connection with the item for share capital. Any particulars as to forfeited shares, or for money received as premiums on shares must be separately given. Next in order under liabilities will come items of loan capital or borrowed money, such as debentures or loans, the precise character of which must be displayed. Trade creditors on open account may be given, less any discounts about to accrue in the ordinary course of business. Bills Payable are separately given. Any reserves or sinking fund should be stated immediately before the item of Profit and Loss.

Balance Sheets prepared on the Double Account principle apply only to those companies which have been constituted

by special Parliamentary powers, though there are a few isolated instances where companies under the Companies Acts have voluntarily adopted the principle. It will be remembered that no company, not specially constituted by special statute, is committed to any form of Balance Sheet ; but is merely required to present a Balance Sheet to its shareholders. The great disadvantage of the Double Account principle is, that it practically debars any provision being made in the accounts for the purpose of depreciation or other wastage of assets, and, further, it requires that all outlay in the nature of renewals or replacements of assets is to be regarded as revenue outlay. For purely internal financial arrangements, however, the principle of the Double Account system may be most usefully employed *as an auxiliary* to the general financial accounts, inasmuch as by such means it is the easiest and best method of ascertaining from time to time, what capital receipts and payments have occurred up to any given point. This has been made the subject of a separate chapter dealing with Financial Arrangements.

CHAPTER XIX

FINANCIAL ARRANGEMENTS

ONE of the most perplexing problems confronting Boards of Directors is the question of resources of working capital for revenue purposes as compared with its cash for capital expenditure. Numerous instances have arisen in the Author's experience, both in prosperous as well as in some less fortunate concerns, where no attempts have been made to distinguish between these two heads of receipts and expenditure. It is very frequently found, more often with rapidly expanding companies where Profit and Loss Accounts reveal substantial balances available for distribution as dividend, that the cash balance at the bank is wholly inadequate to meet dividends which could be quite prudently declared. On the face of it, such a condition of affairs would appear to be impossible; but when it is considered that such situations are invariably brought about through a succession of years of profitable trading accompanied by constant demands upon the working capital of the company for incessant increases to buildings, machinery and plant, and other similar fixed assets, without at any time considering the advisability of issuing fresh proposals for additional share capital or debentures, the result of such practices is very obvious. Such a condition of affairs may involve a situation very detrimental to the company's interest. For example, the management would be strongly tempted to more or less harass its trade debtors for payments on account, bringing about conditions with the company's customers which would amount to a curtailment of the usually recognised terms of credit. It is clear that if this is done, the interests of the concern are bound to suffer in competition with rival firms whose terms of credit remain unimpaired. Apart from this, the absence of readily available cash in a thoroughly sound and robust concern is bound to hamper its rate of expansion.

A well-tried system is in use amongst some of the larger London companies, and has for its object the totally distinct recording of all receipts and expenditure on capital as compared with revenue accounts. This system of segregating capital and revenue cash would be more widely known, if, amongst the more highly organised business houses, it were not one of those practices which are dealt with by only a few directing heads of the management. If this method is adopted and properly administered from the date of the company's incorporation, it is a simple matter, at any time thereafter, to state the precise position of that company's resources under both heads. To take an actual instance, suppose a company to have been formed with a share capital, which has been fully subscribed and paid up, of £100,000, and that it has acquired a business as a going concern for £70,000, some £30,000 being left over for working capital. This has been stated in its simplest form in order that the theory may be the more readily understood. Let us now suppose that the new Board of Directors, possessed of this £30,000 for working, or surplus, cash capital, consider that, in the near future, further additions to its fixed assets will be imperative, and that £15,000 will be required for the acquisition of those profit-earning assets. They accordingly decide to open two accounts at the bank, one to be known as the "Capital Account" or "C. A/c," the other as the "Revenue Account" or "R. A/c," for £15,000 each. The position of affairs can be formulated as follows—

CAPITAL CASH ACCOUNT

Dr.	£		*Cr.* £
Paid-up Capital . .	100000	Vendor . . .	70000
		Revenue Account transferred . . .	15000
		Balance, estimated to be required for further capital acquisitions . . .	15000
	£100000		£100000

REVENUE (OR WORKING CAPITAL) CASH ACCOUNT

Dr.	£	*Cr.*
To amount transferred from Capital A/c .	£15000	

Starting from this basis, all receipts and payments affecting the company's transactions must be so treated as to fall under one of these two accounts. To take the first, or "Capital A/c," all receipts of money arising from further issues of share capital or any calls due, issues of debentures, sales or realisation of fixed assets, must be debited to this cash account; the only payments made therefrom will be such as represent the purchase of some fixed asset, such as freehold land, buildings, plant and machinery, or any item which would in the ordinary way not fall under the head of Revenue expenses or purchases. In this connection, it should be pointed out that if, amongst the £70,000 paid to the vendor mentioned in the above example, there were items such as Trade Debtors and Cash, these would be subtracted from the amount paid to the vendor and transferred to the Revenue account when the company started its business operations, assuming, of course, the directors decide that any cash taken over is to be treated for Revenue purposes. With regard to the entries in the Revenue Cash Account, all items arising from the usual course of trade will fall under this head, such as the purchase of materials, wages, and other revenue expenditure, debenture interest and dividends ; whilst the receipts will comprise amounts received from cash sales, payments from trade debtors, transfer fees, etc. In many cases it may be found that a payment to a creditor may involve a combination of both capital and revenue items, a portion being for raw materials, another portion for some purpose augmenting, for instance, the company's machinery and plant account. In such an instance, two cheques must be drawn, one on the Revenue account for that portion representing raw material for ordinary trade purchases ; another cheque, on capital

account, for that portion representing the purchase of plant, or such other capital item.

Where this principle is consistently followed from year to year, it becomes possible for the directorate accurately to arrive at its true financial position in regard to working capital. In rapidly expanding companies, it will be found that transfers from Revenue to Capital Account frequently arise in order to meet capital expenditure for which no provision has been made, by offering further capital or debentures for subscription, or possibly arranging with the bank for a mortgage loan. All transfers from one account to the other should always be made by cheque, and authority for such a transaction should be recorded in the minutes. It is further very necessary that the Board, whenever it is called upon to consider its financial affairs, should be placed in possession of full details as to the standing of both accounts, somewhat on the lines of the specimen statement of " Ways and Means," shown on page 238. All statements as to cash at bank on the different accounts should be verified by Pass Books and reconciled with the company's Cash Books. Statements of amounts due by trade debtors should be based upon actual data taken from the Sales Ledgers as balanced and agreed from month to month ; the same as regards amounts due to creditors ; whilst careful scrutiny should be made of Bill Books to verify the statements made concerning them.

Opinions differ in regard to the employment of Tabular Cash Accounts on the one hand, as against separate books on the other. In the writer's experience, and he believes it to be the opinion of the majority, separate cash books are distinctly advisable. It must be remembered that the Cash Book kept for general purposes is already burdened with an abundance of cash columns, and when the tabular method is overdone it is very doubtful whether any gain arises either in regard to economy of space or saving of time. The employment of separate books offers an advantage which will appeal to most secretaries on the score that

STATEMENT OF "WAYS AND MEANS," 31st JANUARY, 19..

Resources.		*Capital.*	*Revenue.*	Commitments.	*Capital.*	*Revenue.*
		£	£		£	£
				Immediate—		
Balances at Bank		5192	3918	*Creditors'* Account due	7162	5374
,, on Deposit		—	5000	*Wages* ensuing month	—	5000
Trade Debtors		—	15638	*London Office* and other standing expenses, ensuing month	—	1200
***Bills Receivable*—**	£					
February	1178					
March	1826					
April	516					
		—	3520		7162	11574
Treasury Bills—				**Contingent—**		
Two months	8000			*Bills Payable,* March	1000	—
Three months	2000			,, ,, April	200	500
		10000		*Debenture Interest,* 1st April	—	1500
				Preference Dividend, 1st April	—	5000
		£15192	£28076		£8362	£18574

Total Immediate and contingent Resources—	£	*Total Immediate and contingent Commitments*—	£
Capital	15192	Capital	8362
Revenue	28076	Revenue	18574
	£43268		£26936

information regarding capital expenditure or any proposed scheme of expansion is generally required to be very jealously guarded as highly confidential, in such a manner that even the cashiers in a large counting house are sometimes not in possession of such information at any stage. Indeed, it is not uncommonly found that the Capital Cash Account is only seen by the Secretary, the Accountant, the Directors, and the Auditors.

Where surplus funds exist, and the Board decide to employ them usefully by placing certain sums on deposit with the bank, or by purchasing Treasury Bills, such transactions should be treated within the scope of the Capital Cash Book ; and any demands made upon such sums so deposited or invested would be appropriated either for Capital or Revenue purposes as occasion may require. It is, of course, always understood that transactions of this nature are at all times controlled by decisions of the Board or the Finance Committee, and appropriately recorded in their minutes.

It is obvious that the system we have described is easily applied if adequate steps are taken when the company actually commences its business operations ; but in cases where a Board of Directors, after many years of experience, and since their company was incorporated, find themselves in a quandary as to their position with regard to working capital, very careful consideration is called for in installing such a system as we have outlined. Searching investigation will be called for in regard to the company's financial stability, and the whole range of its projects in regard to the contemplated expansions should be thoroughly gone into before arriving at any allocation under the two heads of capital and revenue. Such funds as the company possesses can then be divided to form starting balances for the two accounts, the functions of each being thereafter carefully observed.

CHAPTER XX

PROFITS AND DIVIDENDS

One of the most vague provisions contained in the Companies Act is clause 97 of Table A, which reads as follows—

" No dividend shall be paid otherwise than out of profit." It may be that the term profit, so far as the Act was concerned, could not be adequately defined. It is not surprising, under these circumstances, that quite a crop of case law exists, arising out of this somewhat delicate question, the most important decisions being *Lee* v. *Neuchatel Asphalte Co.* (*C. A.*, 1889, 41 *Ch. D.* 1), *Verner* v. *General and Commercial Investment Trust* (1894, 2 *Ch.* 239).

In the first of the two cases above cited the directors were held to be within their rights in declaring a dividend where no provision had been made for wastage in value of certain of its property, though it could easily be shown that the assets must of necessity be of a wasting nature. This decision was arrived at in view of the fact that the company's regulations contained no stipulation whatever which restrained the directors from declaring a dividend without having first set aside sums out of revenue for the replacement of depreciating property. The second case, that of *Verner* v. *The General and Commercial Trust,* is probably of a much more flagrant nature, showing, as it does, the onerous responsibility placed upon Boards of Directors. In coming to a decision on this all important question in this latter instance, it is obvious that the business of the company depended largely upon speculation, and that although in the course of evidence before the Court it was shown that some investments made by the company were known to be of an almost worthless character, it was upheld in the Court of Appeal that the company had not exceeded its powers in declaring a dividend without first writing down the book values of its investments. Here again, however, the company's

articles were without any restraint in the matter of finding losses out of revenue. Probably the best and most concise judicial dictum given on this point is that of Lord Justice Buckley in his work on the Companies Acts. His lordship says *inter alia*, " The profits of an undertaking are not such sum as may remain after the payment of every debt, but are the excess of revenue receipts over expenses properly chargeable to revenue account. As to what expenses are properly chargeable to capital, and what to revenue, it is necessarily impossible to lay down any general rule. In many cases, it may be for the shareholders to determine this for themselves, provided the determination be honest and within legal limits."

From first to last, the whole question resolves itself into one of discretion and prudence on the part of the Board when they are faced with the duty of considering the appropriation or disbursement of profits. (See chapter, Depreciation, etc.)

The Companies (Consolidation) Act makes one exception under section 91, in which case companies are permitted under certain specified conditions, and after having first obtained the consent of the Board of Trade, which must be announced in the prospectus, and also be contained as a proviso in the company's Article of Association ; " to pay interest out of capital not exceeding 4 per cent per annum and charge the same to capital as part of the cost of construction of the work or building, or the provision of plant." Later in the section it is provided that this payment out of capital is not to have the effect of reducing the capital of the company which in other respects would be illegal.

Broadly speaking, the position of affairs arising at the stage when the directors have to consider this somewhat subtle question is as follows—

(*a*) A searching inquiry must be made into the nature of each of the fixed assets as to the adequate provision to be made for any shrinkage or wasting in actual values, and the fullest information should be forthcoming in regard to the precise character of all property of this nature in order that the auditors may be in possession of the actual facts,

(*b*) The provisions of the company's Articles of Association must be carefully scrutinised in order to ascertain what provisions are necessary for the creation of, or for augmenting, any reserve or reserves. It is not uncommonly found that a company is, by its own regulations, required to make good or reinstate properties of a wasting nature by means of the creation of a Sinking Fund (*q.v.*). But a Sinking Fund must not be invested in a company's own securities.

(*c*) Some companies have very complex provisions as to the nature of priorities in regard to the claims of the different classes of shareholders and the fullest consideration must be given to such questions.

All points in relation to cumulative dividends on preference shares as regards any dividends which have fallen into arrear, must also be taken into account. Then, again, some involved questions frequently arise in regard to the claims of deferred ordinary or founders' shares, and to limitations which may exist in regard to payment of dividend without having first provided sinking funds or reserves for any specified object.

Usually, the directors are entitled—before distributing profits as dividends—to set aside part of the profits to form a reserve fund and this transfer to reserve may be effected even and although it results in depriving one class of shareholders of dividends. (*Fisher* v. *Black and White Publishing Co.*, 1901, 1 *Ch.* 174.) On the other hand, the articles of association may limit the directors' powers in this respect, as was exemplified in *Paterson* v. *R. Paterson & Sons*, 1916, 53 *S.L.R.*, 404.

The ultimate decision, subject to the limitations imposed by the company's own regulations, as to the disposal of the profits rests with the shareholders and this principle was very clearly enunciated in *Burland* v. *Earle*, 1901, *A.C.* 83, where Lord Davy said: "Their Lordships are not aware of any principle which compels a joint stock company, while a going concern, to divide the whole of its profits among its shareholders. Whether the whole or any part should be divided or what portion should be divided and what portion

retained, are entirely questions of internal management which the shareholders must decide for themselves, and the Court has no jurisdiction to control or to review their decision or to say what is a fair or reasonable sum to retain undivided or what reserve fund may be properly required. And it makes no difference whether the undivided balance remains to the credit of profit and loss account or carried to the credit of a rest or reserve fund, or appropriated to any other use of the company. These are questions for the shareholders to decide subject to any restrictions or directions contained in the articles of association or by-laws of the company."

The principle of control over the disposal of profits extends over past appropriations, and where a depreciation of capital has been made good out of profits, a company is entitled (if its capital assets subsequently appreciate in value) to write back to the credit of its profit and loss account an amount equivalent to the sum previously debited. (*Bishop* v. *Smyrna Railway Co.*, 1895, 2 *Ch.* 596.) Similarly, amounts written off goodwill in excess of proper requirements may be restored to the profit and loss account and the asset account for goodwill correspondingly increased. (*Stapley* v. *Read Bros., Ltd.*, 1924, 40 *T.L.R.* 442.)

In the case of newly-formed companies it is important to remember that no amount of profit earned before the date of incorporation can be distributed as dividend. This is a situation which often arises in instances where a company is formed to take over a business as a going concern as from a date antecedent to the date of the company's actual registration. For instance, X Company is formed and registered on the 15th March to take over the business of A B as from the 1st of January preceding. If it is decided to adhere to the vendor's practice of closing his accounts on the 31st December, then it will be necessary for the directors of the new company to ascertain what would adequately represent the proportion of profits earned from 1st January to the 15th March, because those profits could not be distributed to the shareholders.

There are three alternative methods of apportioning the profits, viz.—

(1) According to the period of time before and after incorporation.

(2) According to the turnover for the two periods.

(3) A combination of the time and turnover methods, gross profits being apportioned according to the turnover, whilst expenses are dealt with according to time, i.e. the periods before and after incorporation.

Although no definite rule of universal application can be laid down, and the circumstances of each case must be taken into consideration ; the third method usually gives the most equitable results.

It is also necessary to remember that any such profits may not be added to any form of revenue reserve which may at a later date be utilised for the purpose of equalising dividends. The safer course in such an instance is to utilise the amount for writing down the value of either goodwill or any other intangible assets. Where, however, the vendor is entitled under the purchase contract, to interest on the sale consideration, the interest for the period up to the date of incorporation may be charged against the pre-incorporation profits. It must not be utilised either for extinguishing or assisting in extinguishing any items standing on the books in the shape of preliminary expenses, because profits earned in the ordinary way would be relieved of the necessity of discharging such a debt. In any event it is desirable that this amount, being incapable of distribution, should not be added to the liabilities in any form which at a later date may be appropriated for the purpose of dividend.

On page 247 three specimens of dividend sheets are given, the first being suitable for use where the whole of the details are handwritten, the second for use where the names and addresses of shareholders are inserted by an addressing machine and the third is suitable where both addressing and calculating machines are available.

Many shareholders desire dividends to be paid to their

bankers ; such requests (technically termed dividend mandates) should be made upon a prescribed form, and where they are numerous, arrangements should be made with the head office of the banks concerned to pay one cheque to that head office for the whole of the dividends payable to the various branches of that bank. The cheque will be accompanied by separate dividend counterfoils for each shareholder together with a detailed list stating the name of the branch at which the dividends are to be credited to the respective shareholders' accounts.

On the dividend sheets, the name of the bank is entered in the column headed " Listed Banks " ; payments to third parties other than banks may be shown in a separate column.

Under the provisions of section 33 of the Finance Act, 1924, it is necessary to show on the dividend counterfoil full details of the gross amount of the dividend ; the income tax deductions applicable thereto, and the net payment.

Where the dividends or interest is paid out of profits or gains brought into charge for income tax, the rate of tax to be deducted is the rate or rates in force during the period in which the profits were earned out of which the dividends or interest are paid. The fiscal year ends on the 5th April, hence for the twelve months ended 30th June of any one year the tax deductible will be the average for that period. For convenience, the average is usually calculated in months, thus for the twelve months ending 31st December, 1925, the rate will be—

		s.	*d.*
3 months at 4s. 6d. in the £	=	1	1½
9 ,, at 4s. ,,	=	3	0
Average rate		4	1½

Where, however, the dividends or interest represent payments which are not made out of profits or gains brought into charge for income the tax is deductable at the rate in force on the date of payment. Examples of this class of payments are the dividends and interests of foreign and colonial

companies which are entrusted to an agent in Great Britain for payment.

If a company is entitled to relief of British Income Tax in respect of Dominion taxes, such relief must be passed on to the shareholders and an explanation of such relief endorsed on the dividend counterfoils.

Copies of the Inland Revenue circulars relating to the deduction of income tax, the rates of deduction, regulations respecting the relief from dominion double taxation and specimen dividend warrants setting out the explanations and information required are given in the appendix pages 389 to 410.

In certain circumstances, shareholders of colonial companies which have established a branch register in Great Britain (such shareholders being resident abroad or in the Isle of Man, Channel Islands or the Irish Free State) may obtain from the Inspector of Foreign and Colonial Dividends, York House, Kingsway, London, W.C.2, an "Authority to pay Dividends in full," i.e. without deduction of income tax. This authority must be obtained by the shareholder and lodged with the London agent of the Colonial company. The agent has to make periodical returns to the Inspector showing what dividends are remitted in full under this authority.

FORM OF DIVIDEND MANDATE

To the Secretary.

.... *Co., Ltd.*

Sir,

I/We hereby request and authorise you to pay all Dividends, Bonuses and Interest from time to time falling due and becoming payable on any Shares, Stocks or Debentures now or hereafter registered in my/our name(s) to my/our Bankers .... of .... whose receipt shall be your full and sufficient discharge.

Dated this .... *day of* ....

Signature...

Address...

In Joint Accounts, this form must be signed by all the registered holders.

DIVIDEND SHEETS

(NAME OF COMPANY) *Share Register No*.......................

Sheet No. ....

Dividend No........................*payable*..

(1)

Folio in Register.	Name of Shareholder.	Listed Banks.	Instructions and/or Branch of Bank Listed.	*No. of Shares.*		*Gross Dividend.*		Total Gross Dividend.	Amount Exempted from British Income Tax.[1]	Tax at ______ in the £.	*Net Amount Payable.*		Warrant No.
				Ord.	Pref.	Ord.	Pref.				Other than Listed Banks.	Listed Banks.	
	say 30 names to a sheet												

(2) Addressing machine—

Nos. of Warrants other than Listed Banks.	Name and Address.	Nos. of Listed Bank Warrant.	No. of Shares.	Gross Dividend.	Income Tax deducted.	Amount Exempted from British Income Tax.[1]	*Net Amount of Warrant Payable.*	
							Other than Listed Banks.	Listed Banks.
	14 *names, etc., to a sheet*							

(3) Addressing machine and Burroughs machine (No. 278)—

No. of Warrant.	Name and Address.	No. of Shares.	Gross Dividend.	Income Tax Deducted.	Net Dividend.	Date of Payment.

Warrants.	Sheets.
Called ________	______________
Exd. _________	______________
Written _______	Extensions checked __
____________	______________
	Cast checked ______

[1] For use of this column, *see* page 246.

CHAPTER XXI

DEPRECIATION, RESERVES, SINKING FUNDS, AND GOODWILL, ETC.

THE character of this chapter will be that of a miscellany, and within its pages we propose to treat of several subjects which at all times and at all seasons offer problems of more or less complexity. For the most part the subjects mentioned in the title are such as crop up at a certain definite period in every company's history. On every occasion they appear to assume a different phase. Even where we find the same board of directors carrying on its august duties year after year, a change of opinion on past policy very frequently asserts itself. This is not to be wondered at in view of the many standpoints from which each of these topics can be viewed. Every case demanding treatment seems to possess its own peculiar characteristics, but in reality practically all can be boiled down to a comparatively few and easily defined basic principles. Above all, it must be remembered such subjects as we now propose to discuss demand the ripest business experience of an all-round character, and the highest and most thoroughly searching professional skill.

Each of the four subjects named in the above title will find a place for discussion in the affairs of the majority of limited liability concerns. In the first year's business they will figure most prominently in the deliberations of the executive and its advisers ; although, as we remarked just now, with each recurring year, experience will probably teach the necessity of a change of such policies as have originally been decided upon. The fortunes of the company as they fluctuate with the changing conditions of trade, and the constant march of scientific research, will demand at each annual

summation of the affairs of the concern a reconsideration of the value of its properties, with the consequent need for looking ahead as to its present and contingent liabilities.

Depreciation.—This is a subject which demands the widest scope of any of those mentioned. It is applied in a variety of ways, but for a greater variety of reasons. The term as known to the commercial world implies a shrinkage of values. The measure of that shrinkage may be due to a number of causes and the remedies to be invoked to provide for such shrinkage are more or less subject to the dictates of experience, but are none the less determined by fairly common modes of treatment which have found universal recognition in business circles. The exact measure of depreciating values can never be accurately known. The annual or other periodical amounts to be set aside to meet this shrinkage must, in all cases be mere approximations, yet in all cases due care and skill must be employed to ensure that whatever amounts are set aside for this purpose are adequate, or in course of time the properties would appear in the books represented by inflated and falsely overstated values.

Machinery of all kinds at all times presents the most difficult and complicated problems. In the past two decades, engineering science and the skill of inventors have made greater revolutions than in any previous similar period. Obsolescence is now a more troublesome factor to be reckoned with than ever it was before, the question of mere wear and tear being regarded as of quite secondary importance. The first point at issue must and always will be " when is this machine or apparatus likely to be superseded in the markets by a better, possessing as it probably would, economic possibilities which would place its predecessor entirely in the background as to rapidity and quality of output and consequently render it outclassed in point of cost of production ? " These problems can only be satisfactorily solved by the aid of the most experienced valuers in the respective trades supplying the particular apparatus. A company in its first year, and at certain intervals after, should obtain the advice

and assistance of some valuer of repute. Nevertheless, the fundamental principles should be well considered by all who have any responsibility in this connection. To enable our readers to do this, we propose to outline the principal factors to be considered so that the great question of depreciation, when it has to be decided upon at the period of preparing for audit, may be properly understood. Taking first the case for machinery the following points must be borne in mind—

(i) The cost of a machine when first installed. This should not include any charges for carriage and must be arrived at after deducting any discounts which may be conceded.

(ii) The necessary repairs or replacements of parts will, during the ordinary life of the machine, be met out of revenue but should, at any time during that period, be ascertainable. It should be remembered that such repairs and replacements will be needed to maintain the machine in its original state of efficiency or as near thereto as possible.

(iii) The approximate duration of its efficiency for profitable purposes as to (*a*) obsolescence and (*b*) mere wear and tear.

(iv) Its probable value as scrap iron when it has ceased to be of use as a profit-bearing unit, i.e. when it has been outclassed by modern devices.

To meet the provision for such information which shall be forthcoming at any time during the lifetime of any given machine, or the whole of the company's machinery individually and collectively, a properly constituted form of inventory book or Register of Plant should be kept, and direct reference should be available to it from each item as it appears in the Plant and Machinery account in the private or impersonal ledger. This book is very conveniently kept on the loose-leaf plan, which renders it readily expansible, and, moreover, admits of the particulars contained in it being classified under suitable groups such as departments and reference numbers of machines. The following is a very useful form of ruling.

No. 58.

MACHINE—25-TON PUNCHING AND SHEARING.

Date of installation : *1st October*, 19...

Purchased from : *Kearns & Littlewell, Redditch.*

Erected in : *Machine Shop. Cost* £550 : 0 : 0.

	Repairs.				Renewals of Parts.				Depreciation at 10 % per ann. on Book value.		
19.. *Nov.* 10.				19.. *June* 13.				19.. *Dec.* 31. 3 *mos.*	£13	15	0
Adjusting bearings	5	10	6	2 *new Main Cogwheels*	£14	0	0	19.. ,, 12 *mos.*	53	12	6
								19.. ,, 12 *mos.* Etc.	48	5	3

It is not suggested that there is any need to work out the depreciation on each machine every year, but this is sometimes done and the information often may prove valuable. This provision has been made so that at any time it will be possible to ascertain the approximate "book value" of any given machinery of sufficient importance. It may be found necessary to consider whether a certain machine is doing as good work as compared with others of more recent and improved construction. It then becomes necessary to ascertain the precise sums which have been expended upon it by way of repairs, renewals of parts and annual depreciation.

By making such allowances, neglecting repairs and renewals, the approximate value is arrived at. The reason for recording the cost of maintaining it in a state of efficiency as represented by the outlay on repairs and renewals, is to afford information as to the average annual cost of such upkeep, quite apart from mere wear and tear or effluxion of time. It must be always borne in mind that there is a shrinkage in value no matter at what high state of repair it is kept, or what its general ability to do its original work may be.

The rates of depreciation vary for different classes of machinery and also to some extent in regard to locality. In both cases the question is mainly one of trade and local custom. Space will not permit to give any particulars in this connection.

The methods of applying the rates of depreciation will require some consideration. We have so far spoken of a certain rate per cent on " book values." Thus, if we assume in our example that it has been decided to write off 10 per cent per annum on the book value of machinery, this does not mean that the cost of that machinery will be met out of profits in ten years. It would be very much longer than that, because the rate of deduction is only taken off the balances remaining at the end of each year. If it were decided to write off the cost of the machinery in ten years, it would be necessary to include as depreciation a tenth part of the *original cost* each year.

The accompanying diagram will be useful, illustrating as it does the approximate values in the books, at the end of each year up to twenty-five years at various rates for depreciation, of an item of property purchased at £1,000. E.g. at 2 per cent per annum off the yearly book values, a building costing £1,000 to erect, would, after twenty-five years, stand at about £600. Again, a machine costing £100, at the end of ten years with a decremental shrinkage on annual book balances at 10 per cent is still worth, say, £35 Arithmetically it would be equivalent to £34 16s. 8d.

Depreciation is provided for in this way far more frequently than by all other means combined. In cases where due care has been exercised in maintaining the property in as high a state of efficiency as is possible, no doubt in most instances the method is adequate. Exceptional cases are, however, at all times likely to occur in the experience of most trades. A machine may, after say, eight years' use, be found to have been entirely superseded by a new piece of apparatus capable of producing work at a price which renders the productivity of its predecessor hopelessly out in the cold. It is consequently found expedient to scrap the latter for what it will realise. Assume this machine to have cost, say, £500, eight years previously, and to have been subjected to an all-round depreciation rate used in common in the concern, its present book value will be approximately £215,

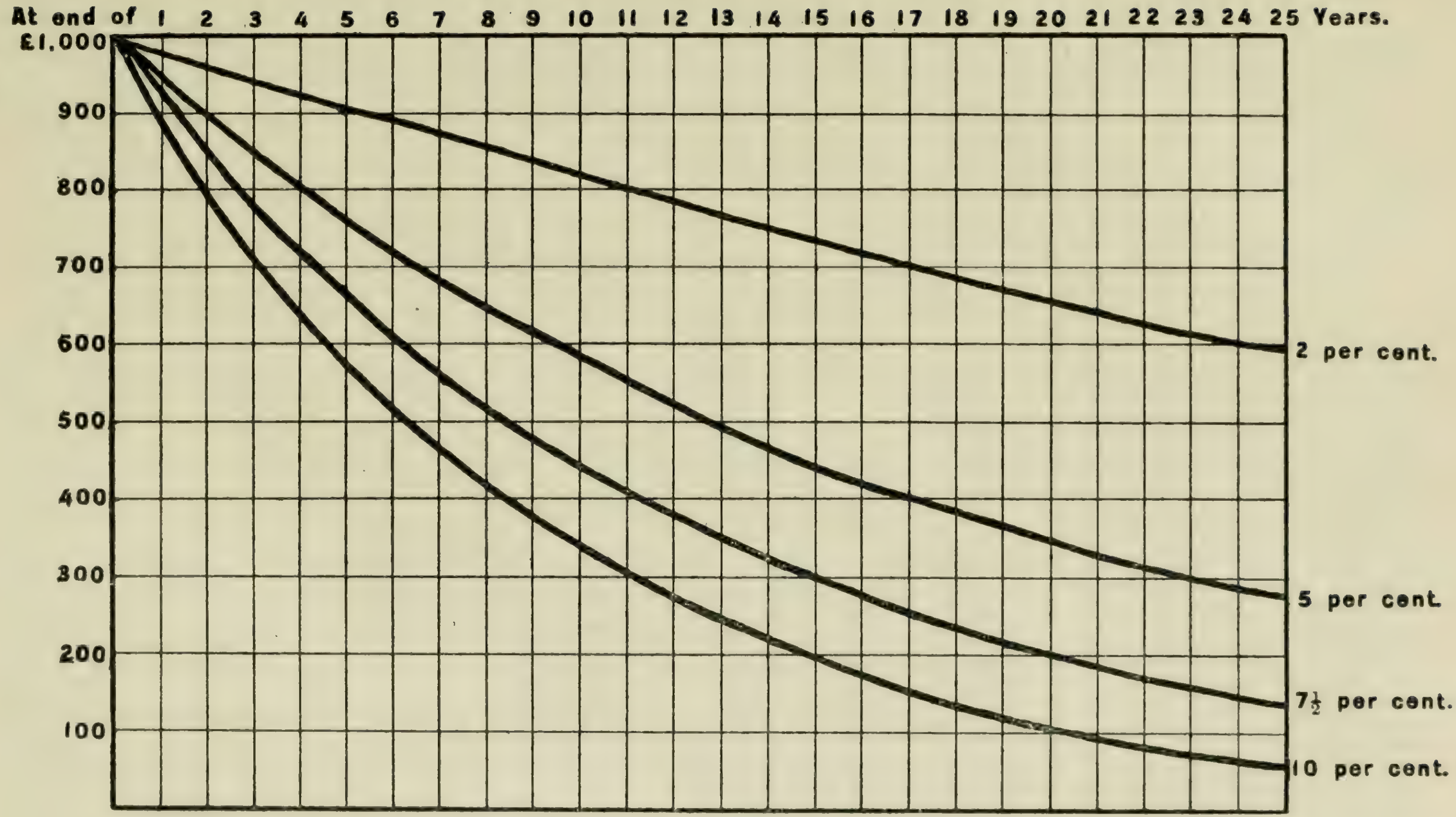

Chart Representing the Book Values of Depreciated Property at Different Rates per cent for each year up to 25 years

so that only £285 has been written off so far. If as scrap iron it realises only £50, it becomes necessary to write off an extra £165 as depreciation in the accounts for that year, the £50 being of course credited to the capital account representing machinery. The cost of the new machine will then be capitalised according to its net purchase price.

A few companies have in recent years adopted the very laudable method of setting aside a certain sum out of each year's profits towards a depreciation fund which will automatically extinguish in a given number of years the original cost of all plant and machinery coming within this arrangement. Sums thus set aside are actually invested in trustworthy funds at compound interest. In the balance sheets of such concerns the assets and liabilities thus affected are then shown in this manner—

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Depreciation Fund (as per investment a/c per contra)	25000	0	0	Machinery and Plant at cost	50000	0	0
				Investments in lieu of Depreciation Fund	25000	0	0

To employ such a method, it is necessary to ascertain what amount shall be set aside each year to replace the capital outlays after a definite number of years. Thus, with the Machinery and Plant standing in the books as above at £50,000, it is required to know what amount shall be written off to meet this sum in fifteen years. The board propose to invest in funds realising 3 per cent at compound interest.

Annual amount to be

invested to produce £1 in 15 years @ 3% = £·0538
,, ,, ,, £50000 ,, = £2690

which will be the amount required to be provided out of revenue for the year under consideration. If the Machinery and Plant account was not added to from year to year, and this sum was annually invested at the rate of 3 per cent. per annum, the interest accruing upon it being added, at the end of fifteen years the original cost of this asset will have

been completely replaced by the creation of a specific reserve in the shape of realisable investments to be utilised as required. The probability of the absence of additions to machinery and plant from year to year, is, however, extremely remote. The amount to be set aside will be based upon the total cost of machinery and plant as they stand in the books at the beginning of each year. In this way provision will be made for the complete elimination of this capital outlay at a date fifteen years from the date of purchase of the original asset, or from the time of the purchasing of such additions as have been acquired, as the case may be.

The depreciation of leaseholds is best provided for on the basis of the method last described. If the funds of a company permit, there cannot be a sounder method. A plan which serves equally well is to arrange for an insurance policy on the endowment principle. The wastage of such an asset is accurately known from the amount paid and the term of years over which it runs, adding dilapidations, but, of course, if any abnormal obsolescence is subsequently experienced, due provision must be made for its extinguishment. Occasionally, heavy losses are experienced through obsolescence of plant and machinery, etc., and in such cases, it is permissible to transfer the net loss to an " Obsolete Plant Suspense Account " the debit balance of which is written off to the profit and loss account over a series of years.

Reserves.—A reserve may be either created out of profits or set aside from capital receipts in the form of premiums upon shares or debentures which may not be distributed as profits. Such a fund is usually formed for a particular purpose, though in the majority of instances it may be termed a general reserve to be appropriated in such a manner as the board think fit. Many companies have founded a General Reserve Fund for the purpose of meeting any unforeseen contingencies, and at the same time have other reserve accounts ear-marked for specific purposes such as—

Dividend Reserves, sometimes termed a Dividend Equalisation Reserve Fund, which may be drawn upon only in such

years as there are insufficient balances to the credit of profit and loss to pay an average rate of dividend and carry forward an adequate amount.

Depreciation Reserves, or a fund to be used in cases of the wasting of fixed assets, such as wear and tear or obsolescence of machinery and plant, a fall in the value of freehold land, depreciation on buildings and fixtures.

Table of Depreciated Book Values

Values of £1 depreciated up to twenty-five years—i.e. Book Values of outlay of £1 at the end of each year at the given rate per cent.

Years.	2 per cent.	5 per cent.	7½ per cent.	10 per cent.
	1·000	1·000	1·000	1·000
1	·980	·950	·925	·900
2	·960	·902	·855	·810
3	·941	·857	·791	·729
4	·922	·814	·732	·656
5	·903	·773	·677	·590
6	·885	·735	·626	·531
7	·868	·698	·579	·478
8	·850	·663	·535	·430
9	·833	·630	·495	·387
10	·817	·598	·458	·348
11	·800	·568	424	·313
12	·784	·540	·392	·282
13	·769	·513	·362	·254
14	·753	·487	·335	·228
15	·738	·463	·310	·205
16	·723	·440	·287	·185
17	·709	·418	·265	·166
18	·695	·397	·245	·150
19	·681	·377	·227	·135
20	·667	·358	·210	·121
21	·654	·340	·194	·109
22	·641	·323	·179	·098
23	·628	·307	·166	·088
24	·615	·291	·153	·079
25	·603	·277	·142	·071

Example :—A machine costing £300 will, at the end of eight years, after deducting 7½ per cent per annum from the

balances in the books, be equal to (£300 × ·535) = £160·5 in value; or (£300 − 160·5) = £139·5 will then have been written off.

Sinking Fund Table

Annual amount required to be set aside and Invested with Accumulated Interest added each year to produce £1, up to twenty-five years.

Years.	$2\frac{1}{2}$ per cent.	3 per cent.	4 per cent.	5 per cent.
1	1·0000	1·0000	1·0000	1·0000
2	·4938	·4926	·4902	·4878
3	·3251	·3225	·3203	·3172
4	·2408	·2390	·2355	·2320
5	·1902	·1884	·1846	·1810
6	·1565	·1546	.1508	·1470
7	·1325	·1305	·1266	·1228
8	·1145	·1125	·1085	·1047
9	·1005	·0984	·0945	·0907
10	·0893	·0872	·0833	·0795
11	·0801	·0781	·0742	·0704
12	·0725	·0705	·0666	·0628
13	·0660	·0640	·0601	·0565
14	·0605	·0585	·0547	·0510
15	·0558	·0538	·0492	·0463
16	·0516	·0496	·0458	·0423
17	·0479	·0460	·0422	·0387
18	·0477	·0427	·0390	·0355
19	·0418	·0398	·0361	·0327
20	·0391	·0372	·0336	·0302
21	·0368	·0369	·0313	·0280
22	·0346	·0327	·0292	·0260
23	·0327	·0308	·0273	·0241
24	·0309	·0290	·0256	·0225
25	·0293	·0274	·0240	·0210

Example:—Amount to be set aside each year to produce £17,000 at 3 per cent. c.p.i. in seventeen years (£17,000 × ·046) = £782 p.a.

Reserve Fund Table

Amount of £1 per annum accumulated with Compound Interest at various rates up to twenty-five years.

Years.	2½ per cent.	3 per cent.	4 per cent.	5 per cent.
1	1·000	1·000	1·000	1·000
2	2·025	2·030	2·040	2·050
3	3·076	3·091	3·122	3·153
4	4·153	4·184	4·246	4·310
5	5·256	5·309	5·416	5·526
6	6·388	6·468	6·633	6·802
7	7·547	7·662	7·898	8·142
8	8·736	8·892	9·214	9·549
9	9·954	10·159	10·583	11·027
10	11·203	11·494	12·006	12·578
11	12·483	12·808	13·486	14·207
12	13·796	14·192	15·026	15·917
13	15·140	15·618	16·627	17·713
14	16·519	17·086	18·292	19·599
15	17·932	18·599	20·024	21·579
16	19·380	20·157	21·825	23·657
17	20·865	21·762	23·698	25·840
18	22·386	23·414	25·645	28·132
19	23·946	25·117	27·671	30·539
20	25·545	26·870	29·778	33·066
21	27·183	28·676	31·969	35·719
22	28·863	30·737	34·248	38·505
23	30·584	32·453	36·618	41·430
24	32·349	34·426	39·083	44·502
25	34·158	36·459	41·646	47·727

Example :—The amount of £782 invested annually at 3 per cent p.a., c.p.i. in seventeen years = £(782 × 21·762) = £17,017·884.

Bad Debt Reserves are sometimes established in view of possible losses on book debts, and in some instances an amount may be added to such a reserve to provide for the average amount to be allowed on book debts for the usual cash discounts, though it is best to show this as a deduction from the item for trade debtors.

Debenture Redemption Reserve is a provision the object of which is to pay off a given issue of debentures at a known date or a series of dates. (See debentures, Chapter IX.)

Loss on Investment Reserve.—This is a very necessary provision to make where a company has invested its surplus earnings. In financial companies a precaution of this kind is imperative. Wherever the market price of any security has dropped, it is better actually to provide for this out of profits rather than to state the asset at its cost price and add a note of current market value.

Such in the main are the instances under which specific reserve funds may be met with. They may be the outcome of prudence on the part of the board, but in some companies there may be an obligation under its articles of association to set aside a reserve out of profits before a certain rate of dividend can be paid.

Another form of providing for future contingencies is the creation of Secret Reserves. Amongst successful companies this method of strengthening the financial status is well known, but owing to its nature the method of treatment is only imperfectly understood by the lay reader. If the practice has been properly made use of, it may safely be said to be a policy which may be commended. Instances have been known, however, of directors who have taken advantage of writing down the assets of their company with the deliberate intention of causing a fall in the market prices of its shares. Afterwards they reinstate those assets to their former value, thus adding to the profits earned and so effecting an ultimate rise in the shares. This is a dishonest practice of the worst description, and is only mentioned here to show that abuses have been known in connection with secret reserves. To the words "secret reserves" some persons have a strong objection, on the grounds that the words suggest something of a clandestine or hidden character, or that there is something doubtful or suspicious about them; though, of course, the very existence of such provisions having been resorted to would be known only to the board itself, the secretary and

auditors. The possible disclosure of such means having been employed may arise in the course of subsequent events, as, for instance, arising out of the inquiries of a Committee of Investigation, or in liquidation.

The best authorities are agreed that Secret Reserves should be resorted to only in instances where profits have been earned in quite abnormal circumstances. If the effect of making such a provision would be likely to cause a fall in the market prices of the shares, then it is best not to employ this method of laying by undistributed profits. Given a period of prosperity, however, with large accretions to its coffers, a company may adopt these measures with a view to establishing a thoroughly sound financial basis which will provide a very useful means of equalising dividends in future years when its affairs have been less fortunate; or the reserve may be utilised to redeem debentures, to provide for loss on investments, etc.

The *modus operandi* employed to effect these provisions depends, of course, upon the circumstances above indicated; thus, in the event of a large increase in profits, it would be quite competent for the directors either

(i) To place against revenue for the year any large outlay on machinery and plant as would in the ordinary course be regarded as a capital charge, or of effecting improvements and additions to buildings, plant and machinery, such being ordinarily and legitimately capitalised.

(ii) To introduce an inordinate rate of depreciation to diminish greatly the full value of plant and machinery, or perhaps eliminate those items from the balance sheet.

(iii) To write down the actual values of stock-in-trade much below cost prices, or greatly reduce the values of stores of raw material to a figure far below average market rates.

(iv) To create abnormal reserves for losses on book debts or for excessive rates of cash discounts to be allowed.

Assets which have an appreciating value have been suggested as suitable items, but it is the more usual, and certainly the more prudent policy to allow an asset with an accretion

to its value to remain on the books at its original cost in any event. The possession of such property constitutes a reserve in itself and should not be singled out for the purpose of forming a secret reserve in the strict sense of the term. Cash at Bank on deposit, too, has received attention as a likely asset which may be understated, but there are many objections to such a course. Of the four instances given above (i), (iii) and (iv) are perhaps the most suitable, being assets of a circulating character ; the two latter items are not shown on the balance sheet in such a way as would give information as to additions as in the case of " buildings " or " machinery." It is different with (ii) where both freehold land and buildings, and machinery and plant are usually stated in the balance sheet, showing the value at the last publication of affairs, with additions acquired since, as well as depreciation deducted. Some shareholders skilled in the analysis and criticism of balance sheets would in all probability detect the deduction in the amount brought forward or in an abnormal amount being allowed for depreciation, and thus defeat the object of the secret position desired. Additions to plant or buildings, stock and debtors are thus more opportune, as they offer the least chance of detection.

The following figures represent the *actual* values of the several assets given and the amount of profit earned for the year.

Profit for year ended Dec., 19..	£ 56000	Machinery and Plant as at Jan. 1st, 19.. ..	£ 100000	
		Additions for the year	15000	
			115000	
		Depreciation	12000	103000
		Stock-in-trade and Stores		30000
		Debtors		45000

It is desired to create a secret reserve of £15,000 out of the year's profits. To effect this it has been decided to understate

additions to Machinery and Plant £5,000, Stock, etc., £5,000, and Debtors £5,000, representing net profits at the equivalent of these three amounts, or £15,000 *less*, than actually earned, i.e. £41,000. These items will consequently appear in the balance sheet as follows—

	£		£	£
Profit for the year ended Dec., 19..	41000	Machinery and Plant as at Jan., 19..	100000	
		Additions for the year ..	10000	
			110000	
		Depreciation ..	12000	
				98000
		Stock-in-trade and Stores ..		25000
		Debtors ..		40000

To give effect to this, a board minute must be passed and entries made in each of the private ledger accounts concerned, with a reference to the minute. Of course, the advice and concurrence of the auditors would be first obtained. When it is desired to draw upon the reserve in future years, it is merely necessary to reinstate the assets to the amount drawn upon, adding a corresponding amount to the year's profits. The entries must in all cases be supported by board minutes, and each decision must also be recorded below the ledger balances of the accounts affected at the time.

Sinking Funds.—The method of initiating such a fund, and the subsequent periodical setting aside of sums of money, has been mentioned in the chapter on debentures, and also earlier in this chapter under the subject of depreciation, etc. The operation of the fund depends upon the gradual accumulation of the periodical instalments provided out of profits and the investment of those instalments from time to time, and also of the interest accruing at the end of each period, usually annual increments.

It is essential that the investments be made in reliable securities which may reasonably be depended upon to maintain their market value and so provide the amount required in cash at the desired date. The fund will always be raised for a

specific purpose and may not be otherwise utilised or in any way drawn upon. These funds are established for a great variety of objects and are probably utilised to a much greater extent in the accounts of parliamentary companies and local authorities than in either limited liability or private ventures. Where, however, the certainty exists of having to face a heavy payment for some cause or other at a future date, and the necessary cash for the sinking fund can be found out of surplus profits, the directors should not hesitate to employ the advantages offered by this method of replacing a wasting asset, or of extinguishing or renewing a debenture loan.

The following are the principal objects for which a sinking fund may be requisitioned—

(*a*) The redemption of a series of terminable debentures.

(*b*) The replacement of amounts expended on the purchase of any patent rights, upon expiry of those rights.

(*c*) The replacement of capital spent in the sinking of mining shafts or like developments, spread over a period by which it is estimated the yield of the mine will be exhausted.

(*d*) To replace the cost of a premium on a lease at the end of its term and at the same time to provide a suitable sum which, under the terms of that lease, the lessee may be required to spend in defraying the cost of putting the premises in proper repair.

The operations involved in connection with these funds are somewhat complex and require very careful consideration and treatment. The following example is based upon the table of sinking fund instalments at various percentages of interest on page 257. If it is assumed that the premium on a lease has cost £900 and the necessary repairs at the end of its term, four years hence, will cost say £100, it becomes necessary to set aside four annual instalments to meet this, say at 5 per cent. By the table the amount for £1 at 5 per cent for four years = £·232, or £1,000 will require (1000 × ·232) = £232 to be annually appropriated from revenue account, which, invested at 5 per cent, together with interest as earned will produce £1,000, *when the fourth instalment has been paid*,

i.e. the last increment from profits may be drawn from cash account at any time during the fourth year of the term. At one year before the end of any such period, provided the annual instalments, except the last, have been invested at the commencement of each year, the accumulation of instalments and the interest invested with them will provide the required sum, less the final instalment. Thus it must be remembered all sinking fund tables are drawn up on the basis of annual instalments, not over a given number of years. In our example it will be seen that if investments are made promptly, the £1,000 *could* be found *three* years hence by *four* instalments—

	£	s.	d.
First instalment	232	0	0
1 year's interest @ 5%	11	12	0
	243	12	0
Second instalment	232	0	0
	475	12	0
1 year's interest	23	16	0
	499	8	0
Third instalment	232	0	0
	731	8	0
1 year's interest	36	12	0
	768	0	0
Fourth instalment	232	0	0
	£1000	0	0

For simplification, interest has been calculated to the nearest shilling. From the above it is shown that interest has contributed (£11 12s. 0d., £23 16s. 0d., £36 12s. 0d.) = £72 and principal (£232 × 4) = £928 to produce the £1,000.

The following entries will be necessary—

		£	s.	d.	£	s.	d.
First year	Revenue account .. *Dr*.	232	0	0			
	To Sinking Fund				232	0	0
	Sinking Fund Investment a/c *Dr*	232	0	0			
	To Cash				232	0	0
Second year	Cash .. .. .. *Dr*.	9	5	7			
	Income Tax .. .. *Dr*.	2	6	5			
	To Interest Account ..				11	12	0

		£ s. d.	£ s. d.
Second year	Interest Account .. *Dr.*	11 12 0	
	To Sinking Fund		11 12 0
	Revenue Account .. *Dr.*	232 0 0	
	To Sinking Fund		232 0 0
	Sinking Fund Investment a/c. *Dr.*	243 12 0	
	To Cash		243 12 0
	etc.		

It will be noticed that income tax must be incorporated with the problem, and it will be necessary to invest the gross amount of interest accruing annually as shown: not the net receipts. In the above example, tax is calculated at 4s. in the £; but in practice, of course, the rate of tax varies and the current rate of tax must be taken into consideration in arriving at the gross amount of interest. By a judicious selection of securities, it is possible to provide a greater return on the invested instalments. Should this arise, any surplus at the end of the term may be credited to profits for that period. It is not suggested that this can be safely done in normal times on a 5 per cent basis; that rate has been selected as a simpler illustration. As a result of these operations, the balance sheet will exhibit each year the position of affairs, giving, under liabilities, the amount of accumulated yearly instalments with the interest earned upon the cash invested. A corresponding asset will appear representing the actual investments made, and specifying their character as well as the purpose they serve. In other words, the particular investments will be "ear-marked" as a set-off against the sinking fund opposite. As the fund matures, the investments can be converted into cash for the purpose of purchasing a renewal of the lease, if necessary, and also to pay for the amount of dilapidations to the building.

Goodwill.—This is an item which appears among the assets of a large proportion of companies. It is not so usual in the case of privately owned or partnership concerns, though in such instances it may exist on an equally sound basis. The term has been most succinctly described as representing the "value attached to reputation." Goodwill is entirely

intangible. It possesses no material existence, yet it may represent material worth. It is capable of being more or less approximately assessed as to its monetary equivalent. As applied to businesses which are privately owned either by a sole proprietor or a partnership, goodwill is not so commonly found, though under such conditions it is much more likely actually to exist than in the case of companies, where it may be recognised on paper and yet possess no foundation in fact. To prove that this is so, it is only necessary to consider the position of the private trader or merchant in relation to his business which he expects to yield him a greater proportion of profit than would a body of shareholders possessing the same or a similar business under equal conditions. The private proprietor seeks a profit which will adequately recompense him for his time spent in the business, and, in addition, a return for his capital invested in it. The shareholder, on the other hand, devotes no time to the administration of the concern, and consequently looks only for a return on his investment. It is for this reason, to a very great extent, that such a large proportion of joint-stock ventures, which have acquired established businesses, have been over-capitalised. The amounts paid for the purchase of some businesses as going concerns have considerably exceeded the amounts of assets acquired as they stood in the books of the vendors, the excess being regarded as Goodwill in the books of the company. In many instances these excess payments have been perfectly justifiable. A highly profitable business, when owned by a private individual who sells it to a company, the vendor remaining in the position of chairman or managing director, may be still capable of yielding a good average and moderate profit on, perhaps, double the amount of capital sunk by shareholders. Goodwill existed in this case as a highly valuable asset of the vendor under the old conditions, though the vendor's books may not have contained actual cognisance of such a thing as goodwill. As owned by the shareholders, it could quite conceivably still exist at the same value, but in relation to capital the

goodwill would represent a smaller proportion according to the amount of new capital introduced. Provided the earning power of the concern has not increased, the profits would then be applied to a greater amount of capital and so reduce the percentage of profits. Suppose the business to have been yielding the vendor an average annual profit of 20 per cent on his capital, and that he sold the concern for approximately double the amount of that capital, the yield on the money ultimately sunk will still be equal to 10 per cent. By this illustration it is not contended that it is sound policy to recognise the existence of goodwill even where the business can be confidently expected to maintain its profit-earning capacity and its good reputation remains unimpaired. On the contrary, it is a much wiser course to apply profits to the purpose of writing off such an asset or to build up a reserve of substantial amount which will in course of time equal the amount of goodwill. There is an objection to the latter course, inasmuch as a reserve is open to be drawn upon for other purposes. In all cases, the safer policy is to depreciate the amount of goodwill periodically, whether the rate of profit has been maintained or augmented. It is obvious that where the rate of profit is a diminishing quantity it is difficult to maintain any claim whatever as to the existence of goodwill. It is sometimes said that there can be no justification for the appreciation of goodwill, under any circumstances. Undoubtedly, it is wiser to ignore appreciation, but there is at least one aspect which merits serious consideration. The goodwill of many companies manufacturing proprietary articles is often created and enhanced by judicious advertising and the question arises whether some portion of the advertising expenditure should be capitalised as "goodwill."

Although, as we have pointed out, the writing off of goodwill is a safer course to pursue, it must be observed that there is no obligation to do so. So long as the profits remain at a sufficiently high level to pay any dividend, after making all obligatory provisions, the necessity for depreciation of this

asset *may* be ignored. It is entirely a question of prudence, and if the shareholders understand the position no one will attempt to question the action.

The amount to be assigned to the item of goodwill is usually arrived at by reference to the agreement for sale and purchase between the vendor and the company. But if this document makes no provision for goodwill as a specific item amongst the assets taken over, goodwill can be deemed to exist only if the amount of the purchase exceeds the total values of the other assets acquired under the deed. On the other hand, the amount thus in excess may be regarded between the parties as representing the value of other intangible assets such as Trade Marks, Patents, Copyrights, etc., the question of goodwill *per se* being ignored. In that case the surplus will be represented by Trade Marks, Patents, etc., where they are mentioned in the deed, and for the purposes of arranging the assets, their value will be the surplus over the other assets. Then again, it is not uncommonly found that goodwill is regarded as a distinct asset side by side with trade marks, patents, etc., figuring as a composite item in the agreement, and eventually as an asset of the company. In practically every case of this description, co-existence of these items is perfectly natural. Goodwill could not appear if the business were bereft of the monopoly conferred upon it by trade mark or patent rights.

The following judicial dictum is worthy of note, as it very broadly defines the actual meaning of goodwill. Lord Macnaghten describes the subject thus—

"It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. . . . For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality, for goodwill has no independent existence. It cannot subsist

by itself. It must be attached to a business. Destroy the business and the goodwill perishes with it, though elements remain which perhaps may be gathered up and be revived again."

Before leaving this subject, it should be noted that every prospectus issued by a company, not being a "private" company, is required to state the amount agreed to be paid to the vendor for goodwill and in what manner (cash, shares or debentures) the vendor is to be paid. (See Companies (Consolidation) Act, 1908, Sec. 81 (1) g, and Sec. 82.)

CHAPTER XXII

INCREASE, REORGANISATION, AND REDUCTION OF SHARE CAPITAL

Increase in share capital, as part of the subject-matter of this chapter discloses, is distinct from an increase in the issue of share capital for such amount as remains unsubscribed or hitherto unissued. Increasing the authorised capital of a company is quite another matter ; the extra capital requires to be registered, and the proper duties paid as when the company was incorporated. The Consolidation Act, section 41, gives a company power to alter its memorandum of association, if so allowed under its articles, where such memorandum contains no provision (*a*) for increasing its share capital ; (*b*) to consolidate or divide its existing shares ; (*c*) to convert paid-up shares into stock and reconvert such stock to shares of any denomination ; (*d*) to divide its shares into shares of smaller amount, but if the shares to be divided are only partly paid-up, the subdivision must be strictly proportional as to paid and unpaid parts of each share ; (*e*) to cancel any shares which may not be taken up. The powers conferred by this section may be exercised by any company if so authorised by its Articles, and are carried into effect usually by means of a special resolution.

The alterations or revisions of share capital contemplated by section 41 of the Act do not—as a general rule—affect the company's liabilities to its members or the latter's rights ; in most cases, the alterations are in form only, the share capital being re-arranged in what is considered a more convenient denomination. Power to reorganise the share capital, whether by the consolidation of shares of different classes or the division of its shares into different classes and which may involve the revision of the shareholder's rights

or privileges, is conferred by section 45 of the Consolidation Act. A special resolution is needed and it must be subsequently confirmed by the Court. Where, however, any special privilege or preference is being interfered with the reorganisation scheme must be passed by a majority in number of shareholders of that class holding three-fourths of the share capital of that class and confirmed at a meeting of shareholders of that class in the same manner as a special resolution of the company is required to be confirmed.

Return of capital may be effected under section 40, whilst reduction of share capital is authorised by section 46 of the Consolidation Act. In both cases a special resolution is required but reduction of capital must be confirmed by the Court.

Notice of the increase, consolidation, division or subdivision, or other revision of share capital must be filed with the Registrar of Joint Stock Companies at Somerset House, and, where the alteration is one which requires the confirmation of the Court, an office copy of the Court's order must be similarly filed with the Registrar.

The provisions of a company's articles of association must be in all cases most fully considered before any definite steps can be taken towards the increase of authorised capital. More frequently the board required to obtain the sanction of the members in general meeting, by means of a special resolution, though in some cases a board may, if the Articles of Association so provide, upon its own responsibility pass the necessary resolution for the purpose of increasing the company's capital. With every increase in capital the scale of duty payable is the same as that payable on the incorporation of the company, and, in the matter of the accounts, the other steps in relation to an increase of capital are similar to those followed when dealing with the first issues of share capital. The reorganising and reduction of share capital requires some further consideration. We will first take the case of reorganisation of share capital. This embraces, as will be seen above, conversion of shares into stock, which

has been dealt with elsewhere in a separate chapter. Other forms of capital arrangements comprise—

(i) The creation of a new and distinct denomination of share or shares out of or wholly covered by an existing issue of another class.

(ii) The conversion of any two classes of shares into those of another denomination to form one class.

(iii) The alteration of the nominal amount of the shares of any denomination, e.g. £5 changed to £1 or 50,000 shares of £5 each converted to 250,000 shares of £1 each.

To carry any of these projects into effect is a costly and troublesome process. Provided the company's articles permit, as they most probably will, the confirmation of the court must be obtained after the special resolutions are passed by the shareholders at meetings held for the purpose. When the obstacles have been surmounted, it will be found necessary to call in all certificates affected by the change, in order that new ones embodying the new conditions can be prepared in their stead. Consequently the share account of every member holding shares of that class has to be altered. The financial books are, however, not greatly concerned. Thus, to take an example, as in (iii) a company whose £5 ordinary shares are quoted at about £30 each, finds it would be an advantage if the nominal amount per share were reduced to £1 each. It has observed all the formalities required by its regulations and the statutes. Notice is given to all its ordinary shareholders that their certificates are to be surrendered for cancellation and that new shares of £1 each will be issued in the ratio of 1 to 5, the notice being supplemented by advertisement in at least two well-known newspapers, notices and advertisements giving the terms of the shareholders' resolutions. It will be necessary to prepare a list of the ordinary share ledger balances, the total of which must agree with the amount of the issue, and ruled spaces for the following must be provided—

(1) Ledger and folio.

(2) Names, addresses and descriptions of members.

(3) Number of existing shares.
(4) Number of new shares.
(5) Distinctive numbers of new shares.
(6) Numbers of old certificates surrendered.
(7) Numbers of new certificates issued.

We mentioned, in dealing with conversion of shares into stock, and vice versa, that shareholders sometimes attempt to evade the stamp duties by having the new certificates made out to some other person. This obviously cannot be permitted unless a proper deed of transfer is drawn up and completed, and stamped with the requisite amount of duty. It is, of course, not irregular to describe the shares in the transfer by their own denomination and distinctive numbers. The deed must go through the process of registration in the usual way.

As the old certificates are received from the shareholders, their numbers are checked and entered in the list. Those holders who have failed to send their certificates in for cancellation will easily be denoted by the absence of any entries under the column for the old certificate numbers. The new distinctive numbers can be entered on the list in the same way as described when dealing with allotment lists (pages 47 to 50). This should be carried out as soon as possible after the list has been checked and agreed, as, when the old certificates have been handed in, it will be possible to prepare the new certificates without delay. This is advisable, because if the new issue is unduly protracted, an unwonted amount of "certification" is bound to arise in consequence. The financial records will merely require the following journal entry, and the consequent opening up of another account in the private ledger for the new class of shares.

	£	s.	d.	£	s.	d.
Ordinary (£5) Shares *Dr.*	250000	0	0			
To Ordinary (£1) Shares ..				250000	0	0
Being the conversion of the 50,000 Ordinary Shares of the company from the amount of five pounds per share to the amount of one pound per share as per Special Resolution of the 15th October, 19...						

When this entry has been posted to the private ledger, the old shares will have been extinguished whilst the new are created in their stead.

Another instance in connection with the re-arrangement of share capital which we might usefully quote is that of changing certain shares held by the directorate into the equivalent of deferred ordinary shares, or ordinary shares converted from shares of no particular denomination when the shares all carry the same rights and obligations. This is sometimes resorted to when it is considered advisable to distinguish the holdings of those responsible for the administration of the company, and those who are merely shareholders. By such an arrangement the latter take precedence as to capital interests and priority of dividends over the shares held by the directorate, who, on the other hand, though taking greater risks from their investment, derive additional benefits therefrom as to distribution of assets and dividends as the prosperity of the company increases, the re-arrangement thus conducing to that end.

The conditions of such an arrangement would not be by any means of so arduous a nature as in the case of the preceding example. The directors, and maybe other officials of the executive, only would be affected unless it had been decided to modify the conditions of the remaining members' holdings as well. Thus, a company with 50,000 £1 ordinary shares agrees in general meetings by means of special resolutions, and having power so to do, to convert £25,000 of those into deferred ordinary shares, which are to be held by members of the board, or such members of the staff as the board may nominate; the remaining £25,000 shares to carry prior rights over those converted both as to assets and dividend. Here it will be essential to call in all the certificates for cancellation, as new ones must be issued, whilst the distinctive numeration of the shares, now in two classes, will be altered.

The following journal entry will dispose of the matter in the private books—

		£	s.	d.	£	s.	d.
Paid up Share Capital	*Dr.*	50000	0	0			
To Sundries							
New Ordinary Shares. Fully paid					25000	0	0
Deferred Ordinary Shares. Fully paid					25000	0	0
Being the conversion of the company's paid up share capital into two classes of shares as provided by Article 10, and passed by Special Resolution on the 15th October, 19...							

The issue of further authorised capital, or the residue of unissued capital, is often prescribed by the articles of a company, to the extent that such offers can be made only to existing shareholders, who may make application for allotment in proportion to their present holdings, perhaps irrespective of the class of share held. Where such conditions apply, no person save a shareholder can be allotted any of the shares of the new issue, and then only in strict proportion to the present holding. The shareholder may, however, renounce his right to allotment and may nominate another person to whom the allotment may be made, the person so nominated agreeing to take up the shares and pay any calls thereon as they become due. A " Letter of Renunciation " is appended. The stamp duty thereon is the same as for allotment letters, and is determined in the same manner, i.e. 1d. for a letter representing shares the nominal value of which does not amount to £5 ; if £5 or over the stamp duty is 6d. for every letter, the stamps can be impressed as shown on the form. A perusal of the form will show that it virtually represents a letter of allotment, the addressee being given the right of passing on the privilege to another should h be disinclined or unable to take up the shares. He is not compelled to nominate anyone as an allottee. Should he not do so the shares are at the disposal of the board. It will be observed that the shareholder's option extends to a certain fixed date. A form of application and allotment sheet for use in connection with *pro rata* allotments to members is given on page 277.

LETTER OF RENUNCIATION

THE UTOPIAN BANKET REEFS, LIMITED.

5 Puddle Alley, E.C.6.
9th November, 19..

To MIRAM HAXIM, ESQ.
Thraxton House,
Buckhouston.

ISSUE OF 50,000 £1 ORDINARY SHARES

Dear Sir,

In accordance with clause 39 of the Articles of Association of the Company, you are entitled, as a shareholder, to allotment of 500 of the above shares at par. In pursuance to the Special Resolution passed at the shareholders' meeting on the 1st instant, the said shares will be duly allotted to you on the basis of one share for each of the five shares now standing in your name unless I am instructed by you to the contrary before the 26th instant.

If you decide to renounce your right to this allotment or desire to nominate some person as an allottee kindly sign the Letter of Renunciation appearing below, and return this document to me intact not later than the 20th inst.

Yours faithfully,
CORNELIUS WINKLE,
Secretary.

LETTER OF RENUNCIATION

6d. Stamp.

To The Directors.

THE UTOPIAN BANKET REEFS, LIMITED.

I hereby renounce my right to allotment of 500 £1 Ordinary Shares in your company, and request you to allot the said shares to Edward Chirton Vivian, Viscount Somertown, Peer of the Realm of Somertown, Stoneshire and 99 Park Lane, W.10.

(*Signed*) MIRAM HAXIM.

Nov. 13*th*, 19...

....

To The Directors,
THE UTOPIAN BANKET REEFS, LIMITED.

I hereby agree to accept the above 500 £1 Ordinary Shares, and undertake to pay the calls thereon. I accordingly hereby request you to enter my name on the Register of Members in respect of the said shares.

As witness my hand this 20th day of November, 19..

(*Signed*) SOMERTOWN.
(*Address*) 99 Park Lane, London, W.10.
(*Description*) Peer of the Realm.

THE..............................COMPANY LIMITED

ISSUE OF..............................SHARES *PRO RATA* TO MEMBERS

APPLICATION AND ALLOTMENT SHEETS

Register of Members. Folio.	NAME.		Occupation.	Address.	Present Holding Shares.	Entitled to Rights for Shares.	Rights Renounced for Shares.	Rights Acquired by Renunciation Shares.
	Surname.	Christian.						

Shares Applied for.	Paid on Application.			Allotment Letter No.	Shares Allotted.	Total due on Application and Allotment			Balance Payable on Allotment.			Date Paid.	Distinctive Numbers.		Share Certificate No.	Remarks.
													From	To		
	£	s.	d.			£	s.	d.	£	s.	d.					

If a company has accumulated funds, i.e. undivided profits (which are available with the sanction of the shareholders for distribution as dividend) such profits or part of them may, by special resolution passed under the authority of section 40 of the Consolidation Act, be returned to the shareholders in reduction of the paid-up capital of the company, thereby increasing the unpaid capital by a similar amount. For example, 5s. per share may be returned on fully paid shares of £1 each ; the shares will remain £1 shares but with only 15s. per share paid thereon, and the company will still possess the power to call up the 5s. per share again at some future date if the trading requirements necessitate the increase.

The entries in the financial books are indicated by the following journal entry—

		£	£
Share Capital Account	*Dr.*	25000	
To Return of Capital Account			25000
Being amount returnable at 5s. per share on 100,000 Ordinary Shares of £1 each in accordance with special resolution passed on 15th March, 19..			

The old share certificates are called in and endorsed with particulars of the capital returned or, alternatively, new certificates issued ; cheques being forwarded to members for the amount returned. The total payment to the members is debited to the Return of Capital Account which is then balanced and closed. Objecting shareholders, however, may instruct the company to retain and invest, on their behalf, the amounts due to them, the interest on the investment being paid to the shareholders.

It is important to remember that shareholders' liability on the shares is not extinguished by a return of capital under section 40 ; that liability remains intact. When it is desired to reduce the capital and extinguish or cancel the liability on the shares it may be effected by special resolution under section 46 confirmed by order of the Court. The procedure outlined in section 46 to 55 of the Act, with its safeguarding provisions for the debts of objecting creditors, must be

strictly complied with and for a period to be named by the Court, the words "and reduced" must be added to the company's name.

Reduction of share capital may be effected under section 46 in the following different ways—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not taken up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on its shares, pay off any share capital which is in excess of the wants of the company.

The financial books record only the issued and paid up share capital and, therefore, any reduction of unissued share capital does not call for any entry in the books of account.

When paid up capital in excess of the company's wants is returned to shareholders the entries required are similar to those previously outlined in this chapter for a return of capital. More usually, however, reduction of capital is effected when it is lost or not represented by available assets. In many cases, there is not only a debit balance in the Profit and Loss Account, but on a revaluation of the assets it is found that the market value of certain assets is less than the book value as shown in the following example.

Example.—The Balance Sheet of the Optimus Co., Ltd., at 31st December, 19.., is as follows—

Capital and Liabilities.	£	*Property and Assets.*	£
Nominal Capital 100,000 Ord. Shares of £1 each	100000	Goodwill	15000
100,000 Pref. Shares of £1 each ..	100000	Land and Buildings	25000
		Patents and Trade Marks	20000
£	200000	Plant and Machinery	45000
		Stock-in-trade	53500
		Sundry Debtors	26738
Issued Capital 80,000 Ord. Shares of £1 each fully paid	80000	Cash at Bank and in hand	440
100,000 Pref. Shares of £1 each, fully paid	100000	Profit and Loss Account Balance at debit	16922
Sundry Creditors	25600	Obsolete Plant Suspense Account ..	8000
Bank Overdraft	5000		
£	210600	£	210600

Special Resolutions are passed and confirmed by the Court—

(1) That the £1 Ordinary shares be reduced to fully paid shares of 10s. each ;

(2) That the £1 Preference shares be reduced to fully paid preference shares of 15s. each ; and

(3) That the amount rendered available by the reduction be applied as follows—

(*a*) In extinguishing the debit balances of the Profit and Loss Account, Obsolete Plant Suspense Account, and Goodwill Account ;

(*b*) Writing off £10,000 off Patents and Trade Marks Account ; and

(*c*) The balance £15,078 off the stock-in-trade.

The Journal entries to give effect to these resolutions are as follows—

		£	£
	Ordinary Share Capital Account ..	40000	
	To Capital Reduction Account ..		40000
	Being reduction of 80,000 Ordinary Shares of £1 each fully paid to 80,000 Ordinary Shares of 10s. each fully paid, as per special resolution of 15th March, 19..		
	Preference Share Capital Account *Dr.*	25000	
	To Capital Reduction Account ..		25000
	Being reduction of 100,000 Preference Shares of £1 each fully paid to 100,000 Preference Shares of 15s. each, fully paid, as per special resolution of 15th March, 19..		
	Capital Reduction Account *Dr.*	65000	
	To Sundries—		
	Profit and Loss Account		16922
	Obsolete Plant Suspense Account ..		8000
	Goodwill Account		15000
	Patents and Trade Marks Account..		10000
	Stock-in-Trade Account		15078
	Being amounts written off as per special resolutions of 15th March, 19..		

ORDINARY SHARE CAPITAL ACCOUNT.

Dr.		£		Cr.	£
19..	To Capital Reduction A/c..	40000	19..	By Balance b.f.	80000
	,, Balance c.d.	40000			
		£80000			£80000
				,, Balance b.d.	40000

PREFERENCE SHARE CAPITAL ACCOUNT.

Dr.		£		Cr.	£
19..	To Capital Reduction A/c ..	25000	19..	By Balance b.f.	100000
	,, Balance c.d.	75000			
		£ 100000			£ 100000
				,, Balance b.d.	75000

CAPITAL REDUCTION ACCOUNT.

Dr.		£		Cr.	£
19..	To Ordinary Share Capital A/c	40000	19..	By Profit and Loss A/c ..	16922
	To Preference Share Capital A/c	25000		By Obsolete Plant Suspense A/c	8000
				,, Goodwill A/c	15000
				,, Patents and Trade Marks A/c	10000
				,, Stock A/c	15078
		£65000			£65000

BALANCE SHEET OF THE OPTIMUS CO., LTD., AND REDUCED AS AT 31ST DECEMBER, 19..

Capital and Liabilities.	£	*Property and Assets.*	£
Nominal Capital 100,000 Ordinary Shares of 10s. each	50000	Land and Buildings	25000
100,000 Preference Shares of 15s. each	75000	Plant and Machinery	45000
	£ 125000	Patents and Trade Marks	10000
Issued Capital 80,000 Ordinary Shares of 10s. each fully paid ..	40000	Stock-in-trade	38422
100,000 Preference Shares of 15s. each fully paid	75000	Sundry Debtors	26738
Sundry Creditors	25600	Cash	440
Bank Overdraft	5000		
	£ 145600		£ 145600

After the reduction has been confirmed by the Court an office copy of the Court's Order must be filed with the Registrar of Companies at Somerset House ; the shareholders notified of the reduction coming into effect, and the share certificates called in for endorsement with particulars of the reduction. A convenient method of marking the certificates is to impress them with a rubber stamp containing the essential particulars.

The same method may be used for marking each page of the share ledger.

A list of the shares held by the members should be prepared, the list containing the following information—

(1) Register of members folio.
(2) Names and addresses of members.
(3) Number of shares held.
(4) Date the share certificate is marked.
(5) Number of share certificate.
(6) Remarks.

The column containing the share certificate number is filled up as and when the certificates are lodged for marking; it will therefore be an easy matter to ascertain at any time what certificates are still outstanding.

Issuing shares against undistributed profit or reserves was very infrequently resorted to before the war, but it has now become quite a common practice. A very large proportion of limited companies, both public and private, have found it expedient to issue bonus or additional shares to their members instead of paying much larger dividends than had hitherto been possible. How far such a practice has been justifiable depends upon circumstances surrounding each individual case, but it may be said in a general way, that property of all descriptions has greatly increased in value. As far as the books of account are concerned the procedure is relatively simple. Suppose a company has on its books £50,000 to the credit of Profit and Loss Account and £100,000 on General Reserve, and it has decided that half of these sums shall be distributed in bonus shares to the holders of ordinary shares, and that half each of the Profit and Loss and Reserve Accounts be reduced for the purpose; as the company still has a portion of its authorized ordinary share capital unissued to the extent of £100,000, no further application for increase of capital is necessary.

One method which may be adopted is to distribute a cash dividend "free of income tax" in the ordinary way and make a new issue of share capital simultaneously. Application

forms for the new shares are issued with the dividend warrants and shareholders are asked to subscribe for the new shares with the proceeds of the dividend.

More usually, however, the dividend itself is issued in the form of shares, credited as fully paid. In this event, the company's articles of association must authorise the distribution of a dividend or bonus payable " free of income tax " in fully paid shares of the company and resolutions must be passed by the shareholders authorising the declaration of the " dividend " in this form and instructing the directors to issue and allot the shares to the members *pro rata* to their registered holdings. A further resolution must be passed authorising one of the shareholders to sign a contract with the company on behalf of himself and all the other shareholders agreeing to accept the shares, and this contract, which constitutes the title of the members to the shares, must be filed with the Registrar of Companies at Somerset House in accordance with the provisions of section 88 of the Consolidation Act.

A journal entry as follows will put the matter in order as far as the financial books are concerned. The issue of shares will follow on the lines as indicated elsewhere in this chapter. The transaction will be subject to a decision of the Board, and confirmation by the shareholders, and reference in the journal entry must be made to the Board minute, and resolution.

		£	£
Profit and Loss Account	*Dr.*	25,000	
General Reserve Account	*Dr.*	50,000	
To Ordinary Share Capital Account . .			75,000
For the issue of 75,000 ordinary shares at £1 each to be issued *pro rata* to the ordinary shareholders in the proportion of one share to every five shares now held in accordance with the resolutions passed at Extraordinary General Meeting of the Company held on 15th March, 19.., and with Board minute 1st day of April, 19..			

Re-arrangements or reorganisation of share capital and the issue of bonus shares sometimes involve fractional parts of a share, and provision should be made in the scheme for

dealing with these fractional parts. Alternative methods which are available are as follows—

(1) Fractional certificates are issued and shareholders must either sell them or buy additional fractional certificates to make up a whole share. Upon surrender of the requisite fractional certificates a complete share is allotted and issued.

(2) The company sells sufficient shares to represent the total fractional parts and distributes the proceeds to the members.

Whichever method is adopted, it should be approved and sanctioned by the shareholders.

CHAPTER XXIII

AMALGAMATIONS AND RECONSTRUCTIONS

AMALGAMATION is the term used when two or more companies combine ; the combination involving the fusion or blending of those separate concerns into one company with the same or substantially the same management and shareholders. The principal reasons for amalgamations are the elimination as far as possible of the risk of competition, and the effecting of substantial economies by the removal of unnecessary or wasteful duplication of expenditure. Competition involves the " cutting " of prices and tends to diminish profits whilst co-operation and combination usually leads to increased production at lower costs and standardisation of prices ; results which may ultimately prove advantageous alike to shareholders, employees, and consumers.

Many different methods of amalgamation are adopted, varying according to circumstances and wishes of the directors and principal shareholders of the companies individually concerned.

The most common form of amalgamation is that where a new company is registered and promoted to take over the assets of two or more existing companies, the latter being wound up and dissolved on the completion of the transfer. It is necessary first to obtain (by means of special resolutions) the sanction of the shareholders of the vendor companies to the scheme of amalgamation and the sale of the assets, etc., to the new company ; and also to appoint liquidators to carry the scheme into effect, transfer the assets, etc., to the new company, receive the purchase consideration (which may be in fully paid shares of the new company or partly in shares and partly in cash, as may be arranged), and to distribute the shares and/or cash amongst the shareholders. The books of the old company require to be closed and those for the new company opened.

The liquidators of the old companies prepare a Share Distribution List containing the names, addresses, and occupations of the shareholders with particulars of their registered holdings in the old companies and particulars of the shares in the new company or cash to which the members are severally entitled. This list (or a copy of it) serves the purpose of application and allotment sheets for the new company as well as a distribution list for the old company.

SHARE DISTRIBUTION LIST

Old Reg. of Mem. Fo.	Name.		Address and Occupation.	Shares in Old Company.			
	Surname.	Christian Names.		Number of Shares.	Old Cert. No.	Distinctive Number.	
						From.	To.

Shares in New Company.				New. Reg. of Mem. Fo.	Cash Payment.				Remarks.
Number of Shares.	New Cert. No.	Distinctive Numbers.			Cheq. No.	Amount			
		From.	To.			£	s.	d.	

Amalgamation by "absorption" is an alternative method of combining two separate concerns. Under this method, one existing company purchases and takes over the entire business of another company, the separate existence of the latter company being terminated and its business absorbed by the purchasing company. Usually, the purchasing

company has to increase its share capital to provide the funds for the acquisition of the other company's business.

The procedure to be adopted in closing the old company's books will vary in accordance with the terms of the purchase agreement, as for example, whether the new company takes over all the assets and discharges the whole of the liabilities or, alternatively, takes over certain assets only whilst the liquidator retains the cash balance, realises the remaining assets and discharges the liabilities. In either case, a Business Realisation Account should be opened and to this account is debited the assets transferred, whilst the liabilities taken over by the new company is credited to the same account. The new company is debited and the Business Realisation Account credited with the agreed purchase consideration, hence the balance of the latter account will indicate whether the amalgamation results in a " profit " or " loss " on book values.

The terms " profit " and " loss " are used in a comparative sense ; obviously an absolute profit or loss is realised only if the purchase consideration is a cash one ; where the consideration is in the form of shares in the new company, or partly in cash and partly in shares, the marketable value of the shares will determine whether their realisation will finally result in a profit or loss to the shareholders of the old companies.

Where the vendor company's business is a valuable one, the amalgamation may result in a profitable exchange to the old shareholders, a surplus arising by reason of (1) an increased price being paid for goodwill over its book value, (2) the reserves being no longer required, and (3) the market price of the purchasing company's shares receivable as part of the purchase consideration being higher than their nominal value.

In order that the old company's books should, as far as possible, record the true result of the amalgamation, the liquidator should value the shares, etc., received as the purchase consideration at their market value when closing

the books. This, however, can be effected only when the purchasing company is well established and their shares quoted on the stock exchanges ; when the purchasing company is an entirely new company the entries must be made on the basis of the nominal value of the shares.

The procedure to open the purchasing company's books follows the ordinary lines consequent upon the formation of a new company ; this has been fully described in Chapter XIII—Opening the Private Accounts. It must be borne in mind, however, that the assets, etc., of the vendor companies must be shown at their true value. Generally speaking, the purchase consideration is based upon a detailed valuation of the assets, but in some cases the purchase price may be fixed upon the market valuation of the vendor company's shares. For example, if the shares are quoted at 5s. per share premium and that company has an issued capital of £100,000, it indicates that the market value of the total net assets, in round figures, is £125,000. Assuming that a purchasing company acquires the vendor company's business at this figure, it will be necessary to revalue the assets and adjust the book values. Probably it will be found that there is an increase in the value of the fixed assets (land, property, etc.) over their book value, while the surplus or excess of the purchase consideration over the total revaluation of the assets will be the value or increase in value of goodwill.

Where, however, the purchasing company's shares stand at a premium and the purchase consideration is payable in fully paid shares, the entries in the purchasing company's books should be on the basis of their nominal value in order that the true effect of the transaction may be shown. For example, Company X—whose shares are quoted at 10s. per share premium—acquires the business and undertaking of Company A for £120,000 payable in fully paid shares of £1 each. The true effect of the transaction is that Company X issues 80,000 £1 shares at total premium of £40,000 in exchange for assets valued at £120,000.

The entries in the purchasing company's books are sufficiently indicated by the following *pro forma* journal entry.

	£	s.	d.	£	s.	d.
Sundry Assets *Dr.*	120000	0	0			
To Vendor Company				120000	0	0
Being assets acquired as per purchase contract dated 19..						
Vendor Company *Dr.*	120000	0	0			
To Share Capital Account				80000	0	0
To Premium on Shares Account ..				40000	0	0
Being allotment of 80,000 £1 shares fully paid in satisfaction of purchase consideration as per agreement dated 19.. (Vide Minute Book)						

It must be remembered that the market value is approximately the price at which the shares can be bought or sold for cash and therefore represents the true intrinsic value of the shares. To some extent, rises and falls in their value are measured by the prosperity or adversity of the company.

Consideration may now be given to a more comprehensive example. Assume that a new company is formed to take over and amalgamate the businesses of the Peer Co. Ltd., and the Stone Co. Ltd., under the title of the Peerstone Co., Ltd., and that the balance sheets of the two companies are as follows—

PEER CO., LTD., 31ST DECEMBER, 19..

Liabilities.	£	*Assets.*	£
Share Capital—		Goodwill	10000
30,000 shares of £1 each ..	30000	Land and Buildings	12000
Debentures	10000	Plant and Machinery	16000
Creditors	8000	Stock-in trade	18000
Reserves	12000	Debtors	10000
Profit and Loss	8000	Cash	2000
	£68000		£68,000

STONE CO., LTD., 31ST DECEMBER, 19..

Liabilities.	£	*Assets.*	£
Share Capital—		Land and Buildings	15000
40,000 shares of £1 each ..	40000	Plant and Machinery	10000
Creditors	7000	Stock-in-trade	16000
Reserves	8000	Debtors	9000
		Cash	1000
		Profit and Loss	4000
	£55000		£55000

The new company takes over all the assets and liabilities of the old companies ; the shareholders receiving an allotment

of fully paid shares in the new company equivalent to the book value of the total net assets. Fractional rights are to be satisfied in cash and the old companies wound up, the new company paying all liquidation expenses.

The balance sheet of the Peer Co. discloses—

	£
Total assets	68000
Less liabilities to creditors and debenture holders	18000
Leaving net assets of	£50000

so that 50,000 shares of £1 each must be allotted to the Peer shareholders in exchange for their present holding of 30,000 shares, i.e. in the proportion of five new shares for three old shares.

For the Stone Co., the net assets total £44,000 and 44,000 new shares fall to be allotted as consideration for the surrender of 40,000 old shares, i.e. in the proportion of eleven new for ten old shares.

The procedure in closing the books of the old companies is the same in both cases, so that it is only necessary to give the principal accounts of one example. Assuming that there are, say, seven shareholders in the Peer Co. the following summary indicates the amount of the new shares and cash to which they are entitled.

	Shareholder.		Holding in Peer Co.	Amount entitled to in new Co.			Shares.	Cash.		
				£	s.	d.		£	s.	d.
1	Black	Eric	3750	6250	0	0	6250			
2	Brown	Arthur	3750	6250	0	0	6250			
3	Home	Alfred	1250	2083	6	8	2083		6	8
4	Jones	William	6250	10416	13	4	10416		13	4
5	Smith	Albert	6250	10416	13	4	10416		13	4
6	White	Thomas	6250	10416	13	4	10416		13	4
7	Manley	Kenneth	2500	4166	13	4	4166		13	4
			30000	£50000	0	0	49997	£3	0	0

N.B.—This statement may be amplified to contain other relative information ; see form given on page 286.

The principal ledger accounts to close the books of the Peer Co., Ltd., are as follows—

Dr. BUSINESS REALISATION ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Sundry Assets ..	68000	0	0	19..	By S/Creditors	8000	0	0
	,, Debenture Premium	500	0	0		,, New Company for Shareholders ..	50000	0	0
						for Debenture holders ..	10500	0	0
		£68500	0	0			£68500	0	0

Dr. NEW COMPANY. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Business Realisation A/c, transfer of net assets ..	50000	0	0	19..	By Shares in new company	49997	0	0
	,, Debentures at 105%	10500	0	0		,, Cash for shareholders	3	0	0
						,, Cash for debenture holders	10500	0	0
		60500	0	0			£60500	0	0

Dr. SUNDRY SHAREHOLDERS. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Shares in new company	49997	0	0	19..	By transfers from Share Capital.. ..	30000	0	0
	,, Cash	3	0	0		Reserves	12000	0	0
						Profit and Loss ..	8000	0	0
		£50000	0	0			£50000	0	0

Dr. DEBENTURES. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Cash paid by new company ..	10500	0	0	19..	By Balance b.f. ..	10000	0	0
						,, Business Realization A/c (Premium)	500	0	0
		10500	0	0			£10500	0	0

The assets are revalued by the new purchasing company ; the revised values being as follows—

			Increase	Decrease
		£	£	£
Peer Co.	Land and Buildings	15000	3000	
	Plant and Machinery	17000	1000	
	Stock-in-trade	17000		1000
Stone Co.	Land and Buildings	16000	1000	
	Plant and Machinery	11000	1000	
	Stock-in-trade	15000		1000
			£6000	£2000

This shows a net increase of £4,000 and it was decided to write off £2,000 off the goodwill account and, after providing

£500 for the premium on the Peer Debentures to transfer the balance of £1,500 to a Purchase Suspense Account, to be used for payment of the liquidation expenses and any other outstanding accounts of the old vendor companies.

In practice, there may be many adjusting items to be included in the final settlement between the vendor and purchasing companies. For example, debenture interest and dividends on the ordinary shares for the current half-year or year may have to be provided for, whilst the new company will also be liable for any income tax due on the old company's profits. Moreover, rates and taxes paid in advance or outstanding may need adjustment. All these items have been ignored in the present example so as to avoid unnecessary complications, but it may be added that the purchase contract should contain suitable provisions for dealing with these matters.

It will be necessary for the new company to make a further issue of capital to provide funds for the redemption of the debentures; the entries recording the issue of the capital are made in the ordinary way. Assuming that the directors and their friends subscribe £15,000 for this purpose and also to provide further working capital, the principal ledger accounts in connection with the purchase of the undertaking are as follows—

Dr. BUSINESS PURCHASE ACCOUNT. *Cr.*

	£		£	£
To Liabilities taken over from—		By Assets acquired from Peer Co.—		
Peer Co.	8000	Goodwill	8000	
Stone Co.	7000	Land and Buildings ..	15000	
„ Shares allotted to Peer Shareholders	49997	Plant and Machinery ..	17000	
„ Cash paid to Peer shareholders for fractional rights ..	3	Stock-in-trade	17000	
		Debtors	10000	
„ Cash paid to Peer Debenture holders	10500	Cash	2000	69000
„ Shares allotted to Stone shareholders	43995	By Stone Co.		
		Land and Buildings ..	16000	
„ Cash paid to Stone shareholders for fractional rights ..	5	Plant and Machinery ..	11000	
		Stock-in-trade	15000	
„ Balance transferred to Purchase Suspense A/c.. ..	1500	Debtors	9000	
		Cash	1000	52000
	£121000		£	121000

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Balance c.d. ..	108992	0	0	1 .	By allotment to Peer shareholders ..	49997	0	0
						By allotment to Stone shareholders ..	43995	0	0
						By application and allotment A/c (new issue)	15000	0	0
	£	108992	0	0		£	108992	0	0
						By Balance b.d. ..	108992	0	0

Dr. CASH ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
19..	To Balances taken over				19..	By Cash paid to			
	from Peer Co. ..	2000	0	0		Peer shareholders ..	3	0	0
	,, Stone Co.	1000	0	0		Peer debenture holders	10500	0	0
	To Application and Allotment A/c (new issue)	15000	0	0		Stone shareholders ..	5	0	0
						By Balance c.d. ..	7492	0	0
		18000	0	0			£18000	0	0
	To Balance b.d. ..	7492	0	0					

Dr. PURCHASE SUSPENSE ACCOUNT. *Cr.*

							£	s.	d.
					19..	By Purchase A/c ..	1500	0	0

A method which has been adopted of recent years in variation of the preceding methods of amalgamation is the formation of a new "Holding Company" to acquire the shares and to control the undertaking of two or more companies under one management. By this method, the old companies continue their separate existence and the new company either (1) purchases the shares of the existing companies for cash or alternatively (2) allots and issues its own shares in exchange for the shares of the old companies.

The entries required in the new company's books are, in the one case a debit to Investment Account (Shares in .... Co., Ltd.) and a credit to cash for the amount paid for the shares ; and in the other case, the entries consist of a debit to Investment Account and a credit to Share Capital Account. In either instance, the financial books of the old companies are unaffected ; the only alteration involved is the change of shareholders, and this is effected

by the execution of transfers in the usual manner by entries in the Register of Transfers and the Share Ledger.

The new "holding" company usually makes a public issue of capital, the entries in the financial books to record the subscription and allotment being made in the ordinary way. (See Chapter IV, Share Applications and Allotments.) Nominally, the holding company's assets consist mainly of the shares in the old companies and its income is in the form of dividends paid by the old companies; in actual fact the holding company is the absolute owner with full control over the old company's businesses.

A further alternative method of amalgamation, comprehensively described as "amalgamation by the acquirement of a controlling interest," arises when one company purchases or acquires the greater part of the issued capital of another company. Under the Consolidation Act, certain business of an important nature can be dealt with only by means of extraordinary or special resolutions which must be passed by a three-fourths majority and, therefore, effective control is gained only when at least three-fourths of the issued capital is acquired. The shares may be purchased in the open market or by agreement with the shareholders. The respective companies continue their separate existence, but usually the purchasing or principal company nominates fresh directors and thus obtains complete control of the subsidiary company's business.

The financial books of the subsidiary company are not affected; the only alterations are the change of shareholders which is recorded in the usual manner. The entries in the purchasing company's books consist of a debit to Investment Account and a credit to cash for the amount paid for the shares. In some cases, the Investment appears as an Asset in the Balance Sheet, but an alternative procedure is to amalgamate the whole of the subsidiary company's final accounts with those of the principal company so that the Balance Sheet contains the whole of the assets, liabilities, etc., of the two companies. This method is often adopted

in the insurance world, and a group of several companies may be combined under the aegis of one principal company.

The term " Reconstruction " is generally understood to mean any arrangement by which the affairs and business of an existing company are re-arranged in such a way that substantially the same business is carried on by, and for the benefit of substantially the same persons who are interested in the existing company. In most cases, this involves the winding up and dissolution of the existing company, and the formation of a new company to take over the whole or the greater part of the existing company's assets with the share capital re-arranged in a more suitable form.

Where the alteration is merely a re-arrangement of the share capital, it is more correctly described as " reorganisation " and the procedure is effected under section 41 or section 45 of the Consolidation Act, 1908. (See Chapter XXII.)

Strictly speaking, reconstruction involves a total reorganisation or re-arrangement of a company's business, its assets and liabilities as well as its capital, and such schemes are effected either under section 192 as schemes of reconstruction or under section 120 as schemes of arrangement.

There are many reasons for the reconstruction of companies, viz., the enforced provision of more working capital by the shareholders ; the widening and enlargement of the company's sphere of operations so as to embark on new branches of business which are not covered by the " objects " clauses of the memorandum of association ; the revision of the share capital by bringing the issued share capital into harmony with the true value of the assets, etc. The term " reconstruction " may also be applied to schemes involving reduction or return of capital ; this phase of the subject is dealt with in Chapter XXII.

Reconstruction schemes under section 192 most commonly provide for the raising of additional capital by substituting partly paid shares for fully paid shares. Thus the liquidating company sells its assets, etc., to a new company in consideration of shares carrying a further liability and these shares

are distributed amongst the members of the old company, and the new "reconstructed" company is able to obtain further capital by making calls upon the partly-paid shares.

A distinctive feature is the protection given to dissentient shareholders under sub-section 3, 4, and 6 of section 192, the effect of these provisions being that any shareholder who does not wish to accept the terms of the proposed reconstruction may (provided he did not vote in favour of the special resolutions at either of the general meetings) by expressing his dissent in writing within seven days after the confirmation of the special resolution and lodging the dissent with the liquidator, require the liquidator to abstain from carrying the resolution into effect or to purchase his interest at a price to be determined by arbitration.

A shareholder, therefore, has three courses open to him, (1) accept the scheme, (2) dissent as provided in the Act, or (3) abandon his interest altogether.

The special resolutions must authorise the liquidator to enter into an agreement with the new company for the sale of the company's undertaking or assets in consideration of the allotment of shares credited as partly paid to a stated extent, e.g. " for £50,000 payable in 80,000 £1 shares, credited as 12s. 6d. per share paid." The sale agreement should provide for allotment direct to the shareholders and thus avoid the expense of transfer stamps, etc. ; provision should also be made for the settlement of dissentient members' interests ; the payment of liquidation costs, etc.

After the sale is completed, the shares allotted and distributed, the result is the formation of a new company with usually the same name, the same or approximately the same shareholders, the same or a revised board of directors, revised share capital, etc., and with the same or enlarged powers under a new memorandum and articles of association. In other words, it is substantially the same company in a new guise.

The entries in the financial books of the old company are similar to those for the liquidation of the vendor company in an amalgamation ; such as those considered earlier in the

present chapter. For the new company the entries are upon the same principle as for a new company acquiring an established business in exchange for shares. The entries for the additional capital called up on the partly paid shares are made in the usual manner. (See Chapter V—Calls on Shares.)

Schemes of arrangement of companies under section 120 include those schemes whereby compromises with its members or any class of members or its creditors or any class of creditors are carried into effect. Under these schemes creditors may accept debentures or shares in satisfaction of their debts; debenture holders may agree to forgo outstanding arrears of interest or to accept shares in cancellation of their debentures; cumulative preference shareholders may agree to "fund" their arrears of dividends, etc., and the majority has power to bind the minority.

Generally, reconstruction schemes under section 192 can be effected only by companies which are proposed to be, or are in the course of being wound up voluntarily, but schemes of arrangement under section 120 do not necessarily involve liquidation, the existing company continuing its existence with a revision of its capital, liabilities, and assets as sanctioned by the scheme. Further, schemes under section 192 are restricted to those entered into between the company and its members, but schemes under section 120 may apply to creditors as well as to members. Special resolutions are required, and as a general rule, confirmation by the court must also be obtained for schemes under section 120.

In the following example, the re-arrangement consists of a revision of the company's capital and liabilities, and liquidation is not necessary.

The Balance Sheet of the Wessex Co., Ltd., at 31st December, 19.., is as follows—

Liabilities.	£	*Assets.*	£
Share Capital		Freehold Premises	20000
60,000 Ord. shares of £1 each	60000	Plant and Machinery	40000
50,000 Pref. shares of £1 each	50000	Stock-in-trade	66000
6 % Debentures	50000	Debtors	52000
Interest on arrears	5000	Cash	2000
Creditors	15000	Profit and Loss	5000
Reserve	5000		
	£185000		£185000

A scheme of arrangement was entered into by which the Ordinary shares were to be converted into Deferred Ordinary shares of £1 each, the Preference Shares converted into 5 per cent Preferred Ordinary Shares with prior rights as to dividend over the deferred ordinary and the Debentures (including the arrears of interest) and the amounts due to creditors were to be converted into 6 per cent Cumulative Preference Shares of £1 each. Special resolutions sanctioning the scheme having been passed and confirmed by the shareholders, debenture holders, and creditors, and approved by the Court, the capital of the company was increased accordingly and power was also obtained to make a fresh issue of debentures to provide further working capital, the debit balance of profit and loss account being extinguished by a transfer from reserve.

The records required in the company's financial books are sufficiently indicated by the following journal entries—

	£	s.	d.	£	s.	d.
Reserve Account .. .. *Dr.*	5000	0	0			
To Profit and Loss Account ..				5000	0	0
Being transfer of amount required to extinguish loss						
Ordinary Share Capital Account *Dr.*	60000	0	0			
To Deferred Ordinary Share Capital Account				60000	0	0
Being conversion of ordinary shares into deferred shares in accordance with scheme of arrangement sanctioned by Special Resolution of .... 19..						
Preference Share Capital Account *Dr.*	50000	0	0			
To Preferred Ordinary Share Capital Account				50000	0	0
Being conversion of preference shares into preferred ordinary shares, etc.						

	£	s.	d.	£	s.	d.
Debentures Account *Dr.*	50000	0	0			
Debenture Interest Account ..	5000	0	0			
Sundry Creditors	15000	0	0			
To 6% Cum. Preference Share Capital Account				70000	0	0
Being conversion of debentures, debenture interest, and amounts owing to creditors into preference shares.						

Conversion lists containing particulars relating to the shareholders, debenture holders and creditors, their present holding and amounts due to them, and particulars of the shares to be issued on conversion must be prepared in similar manner to the share distribution lists illustrated earlier in this chapter. Usually, the scheme provides for fractional parts of a £ owing to creditors being paid in cash and in fact small accounts up to say £5 are often thus settled.

The entries relating to the new issue of debentures are made in the ordinary way.

CHAPTER XXIV

STOCK AND STORE ACCOUNTS

THE importance of keeping systematised accounts of goods passing through or stored in a factory or warehouse cannot be overestimated. It is now, indeed, quite imperative that a proper method of recording information of a thoroughly reliable description should be provided, and these records must be so devised as to be correlated with both the financial records of the counting-house and the books of the costing department in the case of a factory. The connecting link between the three sections of the accounts system is such that instant and complete reference from one to the other must be readily available.

There is a somewhat delicate distinction between Stores and Stock Accounts. " Stores " accounts are those which record the information dealing solely with the supplies on hand of raw material or such goods as are stored for the purpose of carrying on the business. " Stock " accounts, on the other hand, record the quantities and other particulars of the stock-in-trade or manufactured or selling products. It is important that the distinction should be rigidly observed, and, for the most part, in larger companies the two accounts would probably be under the charge of different clerks. The stores clerk would perform the duties of order clerk ; the other would be solely concerned in recording and watching the quantities of manufactured goods on hand, as well as acting as a check upon the stores or warehouse. Taking first the considerations relating to stores, the principal purposes of keeping records of stores are—

(i) To provide an easy and ready means of quickly ascertaining the quantities of any given material on hand, together with the price and the position in the store rooms, such as shelf number, bin number, as the case may be.

(ii) To serve as a check upon the store-keeper by showing in detail full information as to receipt and disposal of any goods he may be responsible for.

(iii) To show by references (made upon the invoices for goods inwards) to stock ledgers, the manner of disposal of any goods received, i.e. whether the goods have been acquired directly for work in hand or carried into the stores.

(iv) To allow an easy method of quickly reviewing the quantity of all stores on hand for the purpose of replenishment, and at the same time to denote under the head of each article stored the normal quantity below which the stores should not be allowed to drop.

(v) As an aid in stock-taking operations, the keeping of stores ledgers is almost indispensable. At stock-taking periods the figures shown by the ledgers must be made to agree with the stock sheets prepared in the store rooms from the actual stores on hand.

Stock ledgers now almost universally take the form of card indexes ; in this particular instance the card index is probably unequalled for the easy manner with which it can be adapted to almost any situation as a record of stores on hand. In any case, either the card index or the loose-leaf ledger should be brought into use. It is very desirable that the cards should be kept in the counting house or factory office, and not by the stores-keeper, or there would be no check upon the latter. The cards would be entered up from delivery notes received with the goods, or from the invoices. The stores-keeper in some concerns does not see the invoices at all, in which case a delivery note is insisted upon. The name of the firm supplying the goods, with the date and quantities of materials, are first entered from the note. At a later stage the rate and amount are obtained from the invoice when passed by the ordering department. The specimen shown on page 302 has been found to serve the purpose of a store card used on the card index plan.

The column headed quantities can be provided with

Particulars of Materials________________________ Contract No. (if any)________________

Minimum quantity on hand____________________

Rack No.______________ Bin No.______________

Stores received______________________ Goods disposed of_______________

Date.	Order No.	Suppliers.	Quantity.	Rate.	Amount.	Date.	Work Order.	Name of Job.	Quantity.	Rate.	Amount.

sub-rulings to denote stores held in weight or measurement, as required, or cards can be specially prepared to provide for both, or for other particular purposes if needed.

In the store room, the man in charge will keep a "stores day book," into which he will enter seriatim, on the one hand, each item of deliveries into stores, with the name of the firm, date and quantities; and will place a number on the delivering firm's delivery note, which number will also be entered in his day book. He will record the goods he delivers to the factory, giving the work order number, name of job, and quantity. The requisition notes sent by the factory to the stores will be made out on the manifold principle so that a replica of the requisition to the stores-keeper is always available in case of dispute, or need for verification.

Every invoice passed through to the counting house should bear the initials of all those who have been responsible for the receipt and disposal of the goods represented by the invoice, as well as the number of the card in the stores ledger which contains that information.

Stock Ledgers are practically analogous to the ledgers or cards which we have just discussed, but in this case it has generally been found more convenient to employ the loose-leaf system. As we have said, the recording of stocks embraces those goods which have undergone the process of manufacture and are ready for delivery to the selling departments. The same system holds good in establishments of a retail character in which the goods are sold in the condition in which they are obtained. Stock accounts, in some cases of this description, are found to be as necessary as with the manufacturer. A careful analysis of the various lines stocked must be kept and a judicious classification and grouping is desirable. The form of ruling for a Stock Ledger will differ to some extent from the example described and illustrated for stores, as in most cases there will be a great many more entries for outgoings than for entries recording goods inwards, but the essential principles are practically the same in both instances, whilst the functions discharged may be said to fulfil the same

Description of Goods____________________________________

Minimum for Stock______________________

Location, Rack No.____________ Shelf No.______________

Goods from Factory.			Goods Outwards.								
Date.	Quantities.	Works Order.	Date.	Quantities.	Warehouse Order.	Date.	Quantities.	Warehouse Order.	Date.	Quantities.	Warehouse Order.
						B F			B/F		
			C/F			C/F					

ends. Perhaps the greatest benefits to be derived from the keeping of store and stock records is the ability to review rapidly under two convenient heads all material on hand at any given time, provided the books or cards are kept up to date, and the totals are frequently put in. Stores accounts again furnish the only data as to movement in goods themselves; financial records will not do this except where the channels of turnover under one or more heads represent a particular article under each head of turnover; and where this is so, it is not at all uncommonly found that the selling departments require to be possessed of information in regard to parts or fittings.

The ruling on page 304 will be found suitable for most purposes, but can be easily modified for adaptation to any particular requirements.

The column headed "Quantities" can of course be so arranged to accommodate figures recording movements of goods in weights, lengths, dozens, etc. In both the card index or loose-leaf systems it is possible to prepare suitable rulings of different kinds to meet the various descriptions of goods.

Information in regard to patterns, moulds, designs, etc., is also usually entered into the accounts for manufactured goods, and for the sake of homogeneity a definite number usually denotes each particular line manufactured or stocked.

CHAPTER XXV

COSTING

In all processes of manufacture, building, or construction of any description, cost accounts are now considered as a *sine quâ non.* The information disclosed by an adequate system of costing is quite indispensable to the welfare of every business or public undertaking. The commercial man must provide the necessary data which will enable him to arrive at the precise cost of his wares both in the factory and in the warehouse; indeed, it is necessary that he should know the cost of the separate parts which go to make up a unit of his product as completed for the markets. The builder and contractor must know the cost of his contract up to any given stage, as well as the cost on completion.

In its broad aspects the subject of costing can be roughly divided into at least five distinct headings, each being applicable in the main to the different classes of manufacture or public service, as the case may be.

1. *Multiple costing* is used in such undertakings as produce a variety of articles, or a product the parts of which necessitate a distinct value as it leaves the factory.

2. *Terminating costs* determine the cost of buildings, engineering enterprises, ships, etc.

3. *Process costing* involves the cost of converting raw material into a product to be used in another industry.

4. *Single costing* is that which provides the cost of working mines, for the cost of raising coal, minerals, or ore per ton; the products of breweries and distilleries at per gallon or per barrel.

5. *Operating costs* are such as are involved in ascertaining the mileage rate of railways and tramways, and the products of gas, water and electricity enterprises.

Under these five categories we have set out briefly the various uses to which a system of cost accounts can be put. From the above it will be gathered that the subject of costing has pervaded every branch of trade and industry, but before attempting to construct a system for any given business the parties responsible must be assumed to possess a very close acquaintance with every branch of the process of manufacture or construction which may be in hand. The case of multiple costing is probably the one which offers the most scope to the ingenious organiser. It is that branch of costing which is most widely used, as it embraces almost every conceivable kind of manufacture, and owing to the fact that the system is required to inquire into the most minute details of cost, it is undoubtedly the system which offers the most complex problems.

The basic principles which together make up a set of accounts for costing require—

(*a*) An analysis of all productive labour expended upon each specific item of work produced, classified appropriately in relation to each item of work.

(*b*) The charging of any materials or goods requisitioned from stores for each item.

(*c*) An approximation of all overhead expenses involving the cost of maintaining and directly supervising the factory, embracing all incidental expenditure which cannot be separately charged to each item of work in hand; such as unproductive labour, salaries of supervisors or clerks, cleaners, engine-men, etc., rent, rates, taxes, insurance, repairs, renewals, power, fuel, light, water, depreciation, etc. The method of apportioning these overhead charges, known most familiarly as " Establishment Charges " or " Factory Burden," will be fully explained later on in this chapter.

These are the three factors which go to make up what is commonly known as " factory cost." The total cost of a product as it leaves the factory for the warehouse is the total cost plus a certain percentage, uniformly agreed upon throughout each individual undertaking, to represent *factory*

profit, the resulting price being the full cost to the warehouse or selling departments.

The first factor, productive labour, is the one which demands the closest attention in most cases, when arriving at factory cost. In the more up-to-date establishments systems have been devised whereby workmen are required to hand to their foreman a daily record of their time, which, after having been passed by the foreman, is charged up next morning to the several jobs passing through the works. Other establishments have found it sufficient to arrange for the whole week's wages to be analysed and charged up weekly instead of daily, but the daily record involves very little more time in the office, and offers much greater advantages. It is therefore advisable to adopt a method whereby the chargeable wages can be ascertained day by day if possible. Many useful devices exist in the form of automatic time registers, specially constructed for the purpose of recording time on the workmen's daily dockets, but, unfortunately, we are unable to devote space for the purpose of describing them. It is very essential that the workmen should be spared as much trouble as possible in recording their time ; it is also desirable that the dockets employed should be simply arranged in order that the foreman and time clerks can quickly discern the information they contain. For the most part the products of many of our factories pass through two or three distinct departments before they reach the completed stage Then again it is almost universally found that the product will undergo several distinct operations in each department. In other words, it emerges as a marketable commodity after having passed through the hands of many workmen, each one being, in his particular way, an expert ; or at most he practises only a few of the operations of any given department ; seldom, if ever, is he a practised hand in more than one department. To illustrate a case involving the analysis and rapid charging up of productive labour, let us assume a case where the product of a factory passes through three departments, each quite distinct from the others yet virtually under the same roof,

and that in each department the articles being manufactured pass through several processes—

Dept. A	Process	d
	,,	e
	,,	f
	,,	g
	,,	h
Dept. B	,,	i
	,,	j
	,,	k
	,,	l
Dept. C	,,	m
	,,	n
	,,	o

Take only the case of department, or workshop A ; the arrangements for the other two will be on the same footing. It is desired to design a suitable time-docket for that workshop. The distinct kinds of work undertaken by this department of the factory are five ; it will thus only be necessary for each employee to mark under the column headed by one of the letters d, e, f, g, and h the time of starting and finishing his task *or* the time occupied, and also the works ticket number and a brief description, with his name. His number on the pay roll will have been affixed to the docket, by means of a hand enumerator, before it was handed out.

The dockets and requisition orders to stores for materials should be on tinted paper to denote readily the department from which they emanate.

This docket is passed by the foreman or overseer next morning, and handed to the costing department, with the dockets for the rest of the productive staff. In the costing office the dockets serve two functions ; in the first place they are marked in reference to the amount to be charged to each job the man has been engaged upon, and then the amount is entered upon the charge sheet for the week as shown below, the marking being always expressed in money, except in

those unusual cases where the rate of wage for productive labour is the same all through the department, when the marking on the charge sheet is expressed in time. At the end of the week, or at any stage during the week when a given job is finished, the money equivalent is arrived at, after totalling the time entered since the week started. At the close of each week the charge sheet is totalled and approximately agreed with the full amount of productive wages actually paid for that department. The second function of the docket is to provide a voucher for the payment of wages. Each day dockets are filed away numerically. At the time for payment of wages, the daily dockets of each employee are assembled in batches of six, representing the time for the week of each individual, and then checked off with the time-book, register, or clock recorder.

DAILY TIME DOCKET. Employee's Number 59

THE X COMPANY, LTD. DEPARTMENT A.

Employee's name___*E. Adkins*_______

Rate__1*s*.____ per hour. Date___30/9/19__ *Thur.*

Factory Work Order No.	Description.	Operations.					
		d.	e.	f.	g.	h.	
3891	500 *articles*			3.30			3/6
3785	1,000 ,,			5.30			5/6

Countersigned,

______*G. P.*,______*Overseer*

The charge sheet which, as will have been gathered, is a weekly analysis of the wages cost of each department, is in

3891 500 Articles.						3787 1,000 Articles.							
59	d.	c.	f. 3/6	g.	h.	59	d.	e.	f. 5/6	g.	h.	etc.	etc.
etc.						etc.						etc.	etc.

etc. etc. etc.

effect sometimes a collection of sheets, but this depends upon the number of men employed and the number of jobs per department. The sheet is best ruled in brief size paper, as it will accommodate a greater number of job records. Only a small section is given here. It will be observed from the two entries made from the docket on page 310, where it is assumed that the work in question has been finished. If a workman's task is unfinished from day to day throughout the week, the overseer will withhold that man's dockets from the office till he finishes the work order, or, till the end of the week ; in this way the necessity of entering up small items day by day is obviated. Entries are made only when a man finishes a given order or at the pay day.

The weekly charge sheets constitute a book of entry for the Cost Ledger which may be similar to the following. It will be observed from the method explained of making daily entries of finished jobs, that the charge sheet can be posted to the Cost Ledger whenever a job has passed through the factory, as it will be the duty of the overseer or his clerk to hand in next morning all dockets for finished jobs. The word " ledger " is used in its broadest sense to include card and loose leaf ledgers, as well as " bound " ledgers.

The Cost Ledger is best kept upon the card-index plan, this method being particularly adaptable for numerical filing, the arrangement of the jobs being on a numerical basis in practically all cases. The drawers for the cards are best arranged to accommodate, say, 1,000 cards each. As the guide cards easily distinguish each 100 and each subdivisional ten, the units can quickly be turned up. For instance, the two entries on the charge sheet, page 311, numbers 3891 and 3787, would be in the drawer containing the cards from 3001–4000. 3891 would almost instantly be found under section 800, subsection 90, and so on.

The entries from charge sheets of each department are all entered into the cost card or ledger in their appropriate order. Provision is also made for entry of material used in each department and also for the addition of establishment

COST CARD

Date ______________________________

Description ______________________ Job No. ____________

Department A.					Department B.				Department C.		
d.	e.	f.	g.	h.	i.	j.	k.	l.	m.	n.	o.

Department A	Department B	Department C
Total, Dept. A ____	Total, Dept. B ____	Total, Dept. C ____
Establishment ____	Establishment ____	Establishment ____
Materials.	Materials.	Materials.
[1] Summary— Dept. A ,, B ,, C Prime cost= Profit= Charge=		

[1] Alternatively, the summary may be endorsed on the reverse side of the card.

charges, the method of ascertaining both of which we shall describe later. It is important that the totals of the charge sheets, as well as the entries to the cost cards, should be checked. They should be ticked off and initialed week by week.

It is the custom, in certain industries, for some firms to receive from other people materials which are to undergo certain processes or to be made up into finished articles. In such cases, the time spent in handling the materials (preparatory to undergoing the actual process or making up) should be shown as a separate item on the charge sheet, cost cards, etc.

The charging of material is effected from the Waste Book kept by the stores-keeper, who, it will be remembered from the particulars of the preceding chapter, will enter *all* goods received into the factory, whether specifically ordered for a job in hand or held in stock. He will record in his stores ledger the quantity of every article he issues to each department, giving the work order number in each case, and further he will also indicate on the docket he receives from the workshop, or the manager, how much material he has supplied. This should prove sufficient information for the use of the costing office. It is usual to add a nominal percentage to the actual cost (cash discounts being neglected), of all material requisitioned and supplied to foremen, as well as a further addition, also by way of percentage, for profit on handling the stock, though more frequently one addition is made to cover the cost, whilst the profit is added to the prime cost as a whole. In such a case the price of the raw material is charged up at a fixed rate of, say, 5 or 10 per cent on the invoice prices, to cover the cost of storage, handling, etc. It is important to scrutinise carefully each works order ticket to ensure that the proper amount of material has been charged. This can best be managed by checking off the overseer's requisition slips with the stores-keeper's Waste Book from time to time. (See STORES ACCOUNTS, *infra*.)

The various methods of arriving at the apportionment of establishment charges would half fill such a volume as this.

Establishment Charges, based upon Trading and Profit and Loss Accounts, for the Year Ended December 31st, 19..

Total Outlay (excluding Materials).	Amount in Annual Accounts.			Departments. A.			Departments. B.			Departments. C.			How Apportioned.
Wages, productive ..	£9500	0	0	£2000	0	0	£4500	0	0	£3000	0	0	Analysed weekly.
,, non-productive	1500	0	0	300	0	0	950	0	0	250	0	0	,, ,,
Rent, Rates, and Taxes	750	0	0	120	0	0	400	0	0	230	0	0	On valuer's estimate of departmental annual values.
Insurance	280	0	0	50	0	0	180	0	0	50	0	0	(1) Fire on insured values; (2) employer's risks on wages paid and varying rates.
Salaries and Commission	1200	0	0	400	0	0	900	0	0	650	0	0	On approximate annual value of output in previous year.
General Expenses ..	750	0	0										
Power and Water.. ..	600	0	0	50	0	0	450	0	0	100	0	0	On approximate horse-power required in each.
Fuel and Light	180	0	0	50	0	0	80	0	0	50	0	0	(1) On number of lights; (2) on number of heat radiators.
Depreciation	800	0	0	100	0	0	500	0	0	200	0	0	On value of machines, etc.
Repairs and Renewals	300	0	0	50	0	0	180	0	0	70	0	0	Analysed from accounts.
Debenture Interest ..	550	0	0	150	0	0	300	0	0	100	0	0	On approximate capital sunk.
	£6910	0	0										
Departmental Oncost				£1270	0	0	£3940	0	0	£1700	0	0	
Approximate ratio of labour to Oncost ..				65 %			90 %			60 %			

Selling Costs, apportioned Departmentally. Establishment Charges are based upon Cost of Purchases against other Outlay from Trading and Profit and Loss Accounts for the Year Ended December 31st, 19..

Total Outlay.	Amounts from Annual Accounts.			Departments. A.			B.			C.			How Apportioned.
Purchases net (starting and finishing stocks allowed for)	£9000	0	0	£18000	0	0	£15000	0	0	£16000	0	0	Analysed in financial books.
Salaries and Wages ..	£2500	0	0	500	0	0	1500	0	0	500	0	0	Actually analysed where possible, leaving about one-third for general supervision and administrative purposes distributed in ratio of turnover.
Travellers' Salaries and Commission	1500	0	0	300	0	0	800	0	0	400	0	0	On ratio of turnover.
Discounts	1600	0	0	320	0	0	850	0	0	430	0	0	,, ,,
Rent, Rates, Taxes, and Insurance	1200	0	0	500	0	0	300	0	0	400	0	0	On ratio of space occupied.
Advertising	2100	0	0	700	0	0	400	0	0	1000	0	0	As in Salaries and Wages, but about one-fourth distributed on basis of turnover.
Depreciation	400	0	0	100	0	0	100	0	0	200	0	0	On value of fixtures and furniture.
Trade Expenses	1500	0	0	300	0	0	800	0	0	400	0	0	On ratio of turnover.
Bad Debts	800	0	0	160	0	0	430	0	0	210	0	0	,, ,,
	£11600	0	0	£2880	0	0	£5180	0	0	£3540	0	0	
Approximate Oncost based on cost of purchases				17½ %			35 %			22½ %			

The system given on the form on page 315 is self-explanatory, and is based upon the working of a well-known factory of repute. It will be noticed that the whole cost of maintaining and administering the factory has been provided for, the figures given having been taken from the actual financial records. Incidentally this is an excellent method of inquiring into the economical working of the several departments, and has been known to act as a valuable stimulant towards preventing leakages in running costs. In some highly organised factories, overseers or works superintendents are paid bonuses for the economical working of their departments.

It will not be possible for us to discuss the advisability of including certain charges in this respect. Considerable divergence of opinion exists amongst the highest authorities on the subject of including such an item as, say, interest on capital sunk. In private concerns no doubt the principle is wrong, but we are inclined to think that in the case of companies, such a standing charge as debenture interest is permissible in any case where the conditions of trade competition or favourable markets will permit of it. It is more commonly found that this item does figure in the return.

As distinct from the principle of labour plus establishment costs, there is another method, and one which is growing rapidly in favour in many classes of industry, known as "Machine hour-costing." The basis upon which such a system rests is similar to the method previously described, except that labour and overhead charges are appropriated to individual machines, or a class of machines, in any given department, the resulting hour-cost covering all factory outlay expressed in units of rates per hour per machine according to grade.

Machine hour-costs are best arrived at upon the principle shown on the tabular statement for establishment charges on page 315, and assuming that department to be under treatment for this form of costing as shown upon that schedule, it will be seen that the total productive wages of the department, £4,500, and other overhead charges amounting to

MACHINE HOUR-COSTS.

ANNUAL STATEMENT OF DEPARTMENT "B"

Expenditure, year ended 31st Dec., 19...		Five Alpha Machines	Ten Beta Machines
	£	£	£
Productive Wages . . .	4500	2250	2250
Unproductive do. . . .	950	400	550
Rents, Rates and Taxes .	400	160	240
Insurance	180	80	100
Salaries and Commissions / General Expenses .	900	400	500
Power and Water . .	450	200	250
Fuel and Light . . .	80	30	50
Depreciation	500	200	300
Repairs and Renewals . .	180	80	100
Debenture Interest . .	300	150	150
	£8440	£3950	£4490
Annual cost per Machine .	—	£790	£449
Hour cost per Machine . . 2500 hours (50 weeks of 50 hours each)		£·316 or 6s. 4d. say 6s. 6d. per hour	£·1796 or 3s. 7d. say 3s. 9d. per hour

£3,940, could be taken collectively and split up over the number of machines, or different classes of machines, used in that department. It will serve as a useful illustration if, in the present instance, it is assumed that the department consists of five Alpha machines and ten Beta machines. It will be useful to tabulate the hour-costing system on the following basis, using the same figures as appear on the schedule mentioned, assuming that the Alpha machine involves the constant employment of two men and two labourers, and the Beta machine one man and one labourer.

It will be observed from the above table that the machine hour-costs of the first machine is 6s. 6d. per hour, that of the second machine 3s. 9d. per hour, and these figures cover all labour costs and other outlay involved in that part of the factory. The growing popularity of this system is undoubtedly due to the simplicity with which it is worked, both for estimating and costing purposes, but it is very

essential that a close watch should be kept upon the relative outlay of each of the factory departments, certainly not less than every twelve months, preferably quarterly or half-yearly, in order to see that the machine hour-cost is adequately covered. In other respects the factory cost is arrived at under this principle by merely adding cost of material plus such percentage as is necessary for covering expense of handling, plus a profit for the whole.

The above tabulated example of machine hour-costs has been drafted on the simplest possible plan. The same principle will apply to any given workshop where the two machines mentioned in the example are to be treated or where the working has to be applied to a greater number. Instances are on record where no less than twelve different rates of machine hour-costs have been calculated for one department of a factory, and six or seven for another department of the same works. Some difficulty may be experienced in approaching the question of allocation of the different items of overhead expenses, but as a general rule the method of apportionment shown on the table for establishment charges treating the three separate departments can be followed. Many factories, however, have different methods of treating their accounts for machine hour-costs. For instance, the ratio of amounts applicable to a machine or class of machines for unproductive wages may arise from a variety of factors, and must be treated accordingly. In the present instance this item of unproductive wages is based upon the production value of the machine concerned. In the case of rents, rates and taxes, the obvious method is to apportion the expenditure under superficial feet occupied by a machine or class of machines. Insurance can be based upon the values concerned. Salaries, commissions, general expenses, are usually apportioned in the same way as unproductive wages, so also would be fuel for warming, and light. Power and water, however, must be rated according to individual circumstances. It should be possible to allocate power according to dynamometer tests per machine. The question of water will depend upon

whether this commodity is used in the process of manufacture or not. If water is only consumed for the purpose of cleaning, it can be classified under fuel and light. Depreciation should, if possible, be levied on each machine according to its value, and the same with repairs and renewals, accurate analytic accounts of which should be kept in all machine shops. Such items as debenture interest or interest on capital where this is taken in, will depend upon the approximate amounts involved in each department, and will be levied on the machines according to their value or space occupied.

More modern methods of charging raw material have a strong tendency to embrace some system of a percentage establishment charge based upon the total value of goods purchased and passing through warehouses or stores. The older custom which is rapidly becoming obsolete, of including all expenditure on the upkeep and wages and maintenance of stores attached to factories and placing that expenditure on the establishment charge of the factory itself, has been superseded, and kept entirely distinct from the industrial or factory costs. The arrangements are very similar to the system of selling costs dealt with later in this chapter. Simply stated the arrangement can be set down somewhat as follows, omitting details—

Total materials purchased, twelve months . . .	£28000
Expenditure, covering all wages, proportion of salaries, commissions, and general expenses of the whole concern; rates, taxes, and insurance; fuel, light, and water, approximately apportioned to the warehouse; depreciation of warehouse buildings and fittings; repairs and renewals to same; debenture and capital interest estimated to be involved	£1400

It will be seen that this gives a ratio of 5 per cent to cover the cost of storing and handling raw material charged up to the various jobs.

The use of workmen's time dockets previously mentioned in this chapter will be modified for machine hour-costs to the extent that the leading hand on a machine would record the time occupied for himself and mates, and upon this basis costs would be charged according to the hour rate for the

machine plus such materials as are chargeable on the basis given above. To the whole would be added the agreed rate for factory profit.

It is important to see that extra assistance given on machine is duly charged. Take the case of two men making ready instead of one man on a printing machine. If the two making ready were not made note of and just the ordinary time for making ready on the machine were charged, the extra cost of making ready with the extra man would be lost, so that a rush job worked out cheaper than if the one machine minder had prepared the machine.

In addition to ordinary factory cost finding, there is another and equally important phase of costing to consider, known as Selling Costs, though in some few isolated instances the two are treated under one heading. This may serve where the factory and the distributing centre are located under one roof as it were, but in cases where the two are distinct and especially when under separate management, it is certainly desirable to arrange for the finding of a figure to represent selling or distributing cost. If necessary this can also be arranged for departmentally. Indeed, in many cases this will be essential in view of the fact that the wares of one given business may differ to such an extent that the selling cost for the whole would be alarmingly erratic for certain departments. As an instance, we might mention the disparity between the cost of running a department dealing with provisions, and another, say, with jewellery: gross profits and selling costs are greatly at variance on a percentage of turnover. The second statement of overhead charges for selling purposes will readily be understood upon perusal. Here again the annual statement serves an extremely useful purpose as an economic stimulant.

The application of the principle of selling costs is a very vital one for every trader. The subject treated here deals more aptly with businesses, both industrial and commercial, on a somewhat extensive basis ; very small businesses being left out of account. Nevertheless, this subject should be very closely studied by all parties having to do with production

and distribution, no matter how small the factory or how diminutive the retailer's shop may be. Sometimes the subject has to be dealt with collectively, that is to say, both from the producer's and distributor's point of view, but a close inspection of the two tables given on pages 315 and 316 should inculcate into the inquirer's mind the proper function of this branch of accounting, and a due consideration of the principles enunciated will render it apparent to the reader that this is a vital subject which cannot be ignored in any business.

CHAPTER XXVI

LIQUIDATION ACCOUNTS—VOLUNTARY

THERE are three forms of winding up the affairs of companies, the preliminary steps and subsequent procedure to be observed varying with each form. The simplest method of winding up as regards the accounts is that of voluntary liquidation, because no settled form has been laid down by the statutes, except where, in the case of a " pending " liquidation either voluntarily or under supervision, the proceedings are protracted for over a year, when the liquidator is required under sec. 224 of the Act of 1908 to make a return of receipts and expenditure passing through his hands in connection with the winding up. He is also required to do this at prescribed times thereafter until the winding up is concluded. The statement is to be made upon official forms obtainable from the Board of Trade. Where, however, the winding up has been concluded within a year of the date from which the Special Resolution to wind up was passed by the shareholders, the liquidator is only required to lay before the creditors and contributories a statement of his receipts and expenditure, and no prescribed form for such a purpose is provided; it is usual, however, to draw up this account in a similar manner to that prescribed for by the section above quoted, though, as has been stated, this will not be filed with the authorities if the final meeting of the liquidator is to be held within one year from the commencement of liquidation.

It is not within our province in this work to go into the many observances which have to be very closely attended to by a person appointed to discharge the important and onerous duties of liquidator: ponderous volumes exist on the subject of " rights and duties " of these officials, whilst the greater and last part of the Consolidated Act deals almost solely with the subject. It is possible to deal only with the question of

the accounts to be kept for the different forms of liquidation and with statements in connection with accounts.

When appointed, the liquidator should proceed immediately to examine the state of accounts of the company, and obtain a proper balance sheet drawn up at the date of liquidation. He should verify the accuracy of all figures contained in the accounts, and at the same time take steps to satisfy himself that the share registers are also written up, so that the list of contributories may be correctly compiled. It will depend upon the nature of the proceedings as to whether he should have the company's fixed and movable assets valued and the list of debtors and creditors verified. If the liquidation has been decided upon for the purpose of handing over the company's affairs to another company at a stated figure, the transactions in liquidation are comparatively simple. On the other hand, in cases of insolvency involving the realisation of property and distribution of effects to creditors and contributories, the liquidator's task is somewhat different. Again, he may be required to "carry on" the affairs of the company more or less indefinitely with a view to disposal as a going concern as opportunity presents itself: in other words, he would be required to be responsible for the trading of the business in the same way as though the company were still controlled by directors before the liquidation. In such cases the liquidator is usually assisted by a manager appointed by him.

In each of these forms of voluntary liquidation the forms of accounts will not vary very greatly, except in the case where trading is continued, when it is necessary to consider the forms of account in vogue before the liquidation commenced. If these are deemed adequate for proper economical and efficient purposes the old system may be adopted, but care should be exercised in this respect, inasmuch as straitened and impoverished circumstances are more often brought about by inefficient accounts than otherwise. If, therefore, trading is to go on, full regard should be had to this side of the system of accounts.

For the most part, a case of voluntary liquidation is more likely to require as speedy a termination to the proceedings as possible, and whether the situation involves the sale of the whole effects outright or the disposal of the various assets piecemeal on the most advantageous terms, the recording system to be adopted is of the simplest description. A statement of affairs in the usually accepted form will be required only in the case of insolvency and is even then not required by law where the liquidation is not compulsory (*see* supra). But where it is drawn up in voluntary liquidation the statement is wanted merely for the guidance of the liquidator, for he may or may not include in his accounts of the financial proceedings a statement of what assets were expected to realise and the amounts actually obtained, but the liquidator must always offer to provide such information as he is able to give. He is, as a matter of accepted custom, required to state in his final report to the creditors and contributories his willingness to afford all particulars of the winding up which it may be in his power so to do.

A separate set of books must be obtained in which to detail his transactions : a Cash Book, Ledger, and a small Journal will suffice. The final statement of affairs or balance sheet, as the case may be, must be his starting-point in the financial transactions ; he will debit in his books under the respective headings, each asset of the company, whilst, on the other hand, credits will be created for the several liabilities. The Cash Book will commence with the amount taken over at the bank and cash in hand, and will contain all subsequent receipts and payments until the liquidation is complete.

The following balance was drawn up just prior to a resolution to wind up. The company was formed for the purpose of working a concession of land from which china clay had for some years been very profitably extracted ; the yield of clay had, however, some two years previously become of such a character that it could not profitably be worked. A liquidator was appointed whose remuneration was to be £75 ; he was to realise the assets of the company to the best advantage,

and pay off the creditors and any remaining surplus to the contributories. The amounts realised for the several assets and the other costs of liquidation will be found in the Realisation and Cash Accounts respectively.

THE X COMPANY, LTD.

BALANCE SHEET.—31st December, 19..

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
To 12,000 Shares of £1 each, fully paid	£12000	0	0	By Freehold Buildings ..	£3400	0	0
,, Bank Loan, secured on Freehold Buildings ..	2500	0	0	,, Machinery and Plant ..	6000	0	0
,, Sundry Creditors	1900	0	0	,, Stock-in-trade	1000	0	0
				,, Debtors	3000	0	0
				,, Profit and Loss	3000	0	0
	£16400	0	0		£16400	0	0

With this balance sheet before him, the liquidator will be in a position to start his accounts, and the first step in that direction is to make the following Journal entries—

Liquidation Account .. Dr.	£16400	0	0			
To *Sundry Liabilities*						
Share Capital—						
12,000 Shares of £1 each, fully paid				£12000	0	0
Loan (secured on freehold buildings)				2500	0	0
Sundry Unsecured Creditors ..				1900	0	0
Sundry Assets						
To *Liquidation Account*				16400	0	0
Freehold Buildings .. .. Dr.	3400	0	0			
Machinery and Plant	6000	0	0			
Stock-in-trade	1000	0	0			
Debtors	3000	0	0			
Profit and Loss	3000	0	0			

From these entries the following Ledger openings will arise—

LIQUIDATION ACCOUNT

	£	s.	d.		£	s.	d.
To Sundries	£16400	0	0	By Sundries..	£16400	0	0

SHARE CAPITAL

	£	s.	d.		£	s.	d.
To Loss on Realisation ..	£8323	0	0	By Liquidation A/c.. ..	£12000	0	0
,, Cash to Contributories at 6s. 1½d. per share ..	3675	0	0				
,, Cash Balance to Bank of England (Liquidation A/c)	2	0	0				
	£12000	0	0		£12000	0	0

BANK LOAN

To Cash	£2500	0	0	By Liquidation Account ..	£2500	0	0

UNSECURED CREDITORS

To Cash	£1900	0	0	By Liquidation A/c.. ..	£1900	0	0

FREEHOLD BUILDINGS

To Liquidation A/c.. ..	£3400	0	0	By Realisation A/c.. ..	£3400	0	0

PLANT AND MACHINERY ACCOUNT

To Liquidation A/c.. ..	£6000	0	0	By Realisation A/c.. ..	£6000	0	0

STOCK-IN-TRADE

To Liquidation A/c.. ..	£1000	0	0	By Realisation A/c.. ..	£1000	0	0

DEBTORS

To Liquidation A/c.. ..	£3000	0	0	By Realisation A/c.. ..	£3000	0	0

PROFIT AND LOSS ACCOUNT

To Liquidation A/c.. ..	£3000	0	0	By Profit and Loss (Realisation A/c)	£3000	0	0

REALISATION ACCOUNT

To Freehold Buildings ..	£3400	0	0	By Cash, Sale of Buildings..	£3100	0	0
,, Plant and Machinery ..	6000	0	0	,, ,, Auction Sale of Plant and Stock	2500	0	0
,, Debtors	3000	0	0	,, ,, Debts collected ..	2650	0	0
,, Stock	1000	0	0	,, Balance to Profit and Loss (Realisation) A/c	5150	0	0
	£13400	0	0		£13400	0	0

PROFIT AND LOSS (REALISATION) ACCOUNT

To Loss at date of Winding up	£3000	0	0	By Balance to Share Capital A/c	£8323	0	0
,, Loss on Realisation A/c	5150	0	0				
,, Cash Liquidator's Fee..	75	0	0				
,, ,, Auctioneer's Charges ..	58	0	0				
,, ,, Stationery and Printing ..	15	0	0				
,, ,, Postage and Expenses	25	0	0				
	£8323	0	0		£8323	0	0

CASH ACCOUNT

To Sale of Buildings by private treaty	£3100	0	0	By Bank Loan	£2500	0	0
,, Proceeds of Auction of Plant, Machinery and Stock	2500	0	0	,, Sundry Creditors (details)	1900	0	0
,, Book Debts collected (details)	2650	0	0	,, Liquidator's fee ..	75	0	0
				,, Auctioneer's Charges ..	58	0	0
				,, Stationery and Printing	15	0	0
				,, Postage and Expenses..	25	0	0
				,, Payments to Contributories at 6s. 1½d. per share as per schedule	3675	0	0
				,, Balance to Liquidation A/c at Bank of England	2	0	0
	£8250	0	0		£8250	0	0

Probably a large proportion of liquidators appointed in a voluntary winding up are content with a mere single-entry system of receipts and payments. This is, however, unsatisfactory, inasmuch as the liquidator's books ought, for his own satisfaction, to comprise the full details of the transactions from the moment when dissolution commenced. He should be able to show by his own books the amounts realised on the various items against the values at which they were represented at the close of the company's activity. From the foregoing example the total loss to the shareholders is made quite plain in the Profit and Loss on Realisation Account, where the loss on disposal of the effects is coupled with the amount of excess of liabilities over assets at the date of winding up. Then follow the details of cost of liquidation. If he chooses, the liquidator may embody in his final return to the creditors and contributories the amounts at which the various assets stood in the books at dissolution, or where steps have

Number }
Company }

Form No. 92.

[*Re* *Limited.*

This is the Exhibit marked " B " referred to in the Affidavit of

sworn before me this day of 19

]

Form of Statement of Receipts and Payments, and General Directions as to Statements

1. Every Statement must be on sheets 13 inches by 16 inches.
2. Every statement must contain a detailed account of all the Liquidator's Realisations and Disbursements in respect of the Company. The Statement of Realisations should contain a record of all Receipts derived from Assets existing at the date of the Winding-up Order or Resolution and subsequently realised, including Balance in Bank, Book Debts and Calls Collected, Property Sold, etc. : and the Account of Disbursements should contain all payments for costs and charges, or to creditors or contributories. Where property has been realised, the gross proceeds of sale must be entered under Realisations, and the necessary payments incidental to sales must be entered as Disbursements. These accounts should not contain payments into the Companies Liquidation Account, except Unclaimed Dividends (*see paragraph* 5), or Payments into or out of Bank, or Temporary Investments by the Liquidator, or the proceeds of such investments when realised, which should be shown separately—
   (*a*) By means of the Bank Pass Book ;
   (*b*) By a separate detailed Statement of Moneys invested by the Liquidator, and Investments Realised.

   Interest allowed or charged by the Bank, Bank Commission, etc., and profit or loss upon the realisation of Temporary Investments, should, however, be inserted in the Accounts of Realisations or Disbursements, as the case may be. Each receipt and payment must be entered in the account in such a manner as sufficiently to explain its nature. The receipts and payments must severally be added up at the foot of each sheet, *and the totals carried forward from one Account to another without any intermediate balance, so that the gross totals shall represent the total amounts received and paid by the Liquidator respectively.*
3. When the Liquidator carries on a business, a Trading Account must be forwarded as a distinct Account, and the Totals of Receipts and Payments on the Trading Account must alone be set out in the Statement.
4. When Dividends or Instalments of Compositions are paid to Creditors, or a Return of Surplus Assets is made to Contributories, the total amount of each Dividend, or Instalment of Composition, or Return to Contributories, actually paid, must be entered in the Statement of Disbursements as one sum ; and the Liquidator must forward separate accounts showing in lists the amount of the claim of each creditor and the amount of dividend or composition payable to each creditor, and of surplus assets payable to each contributory, distinguishing in each list the dividends or instalments of composition and shares of surplus assets actually paid, and those remaining unclaimed. Each list must be on sheets 13 inches by 8 inches.
5. When unclaimed Dividends, Instalments of Compositions, or Returns of Surplus Assets are paid into the Companies Liquidation Account, the total amount so paid in should be entered in the Statement of Disbursements as one sum.
6. Credit should not be taken in the Statement of Disbursements for any amount in respect of Liquidator's remuneration, unless it has been duly allowed by resolution of the Company in General Meeting, or by order of Court.

LIQUIDATOR'S STATEMENT OF ACCOUNT

Pursuant to Section 224 *of The Companies* (*Consolidation*) *Act,* 1908

Name of Company

Nature of Proceedings

(whether wound up by the Court, or under the Supervision of the Court, or Voluntarily)

Date of Commencement of Winding Up 19

Date to which Statement is brought down 19

Name and address of Liquidator

THIS STATEMENT IS REQUIRED IN DUPLICATE.

LIQUIDATOR'S STATEMENT OF ACCOUNT PURSUANT TO

REALISATIONS.

Date.	Of whom Received.	Nature of Assets Realised.	Amount. £	s.	d.
		* Brought forward ..			
		† Carried forward .. £			

SECTION 224 OF THE COMPANIES (CONSOLIDATION) ACT, 1908.

DISBURSEMENTS.

Date.	To whom Paid.	Nature of Disbursements.	Amount. £	s.	d.
		* Brought forward ..			
		† Carried forward .. £			

* NOTE.—No balance should be shown on this Account, but only the total Realisations and Disbursements, which should be carried forward to the next Account.

ANALYSIS OF BALANCE

		£ s. d.
TOTAL REALISATIONS		
,, DISBURSEMENTS		
BALANCE		£

The Balance is made up as follows —

	£ s. d.	
1. Cash in hands of Liquidator		
2. Total Payments into Bank, including Balance at date of commencement of Winding Up (*as per Bank Book*)		
Total Withdrawals from Bank		
Balance at Bank		
3. Amount in Companies Liquidation Account		
4. Amounts invested by Liquidator*		
Less Amounts realised from same		
Balance		
TOTAL BALANCE as shown above		£

NOTE.—Full details of Stocks purchased for investment and of realisation thereof should be given in a separate Statement.

* The investment or deposit of money by the Liquidator under competent authority does not withdraw it from the operation of Section 224 of The Companies (Consolidation) Act, 1908, and any such investments representing money held for six months or upwards must be realised and paid into the Companies Liquidation Account, except in the case of investments in Government Securities, the transfer of which to the control of the Board of Trade will be accepted as a sufficient compliance with the terms of the Section,

NOTE.—The Liquidator should also state—

1. The Amount of the estimated Assets and Liabilities at the date of the commencement of the Winding Up ..	Assets (after deducting Amounts charged to Secured Creditors and Debenture holders)	£
	Liabilities — Secured Creditors ..	£
	Debenture Holders	£
	Unsecured Creditors	£
2. The Total Amount of the Capital paid up at the date of the commencement of the Winding Up	Paid up in Cash	£
	Issued as paid up otherwise than for Cash	£
3. The General Description and Estimated Value of Outstanding Assets (if any)		
4. The Causes which delay the termination of the Winding Up		
5. The Period within which the Winding Up may probably be completed		

been taken to get a more or less approximate statement of what the assets were expected to realise at the commencement of the winding up, he would state those figures against the amounts actually received.

If the winding up has been carried out with expedition, and it is possible to hold his final meeting within a year of the date of the winding-up resolution, the liquidator's statement of affairs to be placed before the meeting may be made out as follows. Where proceedings are protracted beyond that time the liquidator must make a return on the statutory forms given on pages 329 to 332, and he must fill in on the back of the form in the spaces provided the information as to the position of the proceedings, causes of delay and prospects of termination, etc. The return must be accompanied by an affidavit which must be sworn before a Commissioner for Oaths.

THE X COMPANY, LIMITED

IN LIQUIDATION

FINAL STATEMENT OF THE LIQUIDATORS' RECEIPTS AND EXPENDITURE TO BE SUBMITTED AT THE MEETING OF CREDITORS AND CONTRIBUTORIES ON MARCH 31ST, 19..

Receipts.				*Expenditure.*			
To Proceeds of Sale of Freehold Property by private treaty (value in books, £3,400 os od.) ..	£3100	0	0	By Bank Loan (overdraft fully secured)	£2500	0	0
,, Proceeds of Sale by Auction of Plant, Stock, etc. (value in books, £7,000 os. od.)	2500	0	0	,, Unsecured Creditors ..	1900	0	0
,, Debts collected (amount in books, £3,000 os. od.)	2650	0	0	,, Cost of Liquidation—			
				Liquidation Fees	75	0	0
				Auction Charges	58	0	0
				Stationery and Printing ..	15	0	0
				Postage and Expenses ..	25	0	0
				,, Payments to Contributories at 6s. 1½d. per share ..	3675	0	0
				,, Undistributable Balance paid to Liquidations A/c at Bank of England ..	2	0	0
	£8250	0	0		£8250	0	0

I shall be glad to afford shareholders such further information as I am able to offer.

SEPTIMUS SLEUTH,
Liquidator.

195 Bucklersbury, E.C.2,
March 15th, 19...

CHAPTER XXVII

LIQUIDATION ACCOUNTS—LIQUIDATIONS UNDER SUPERVISION

ALTHOUGH a company's shareholders may have passed a resolution to wind up voluntarily, it is open to any creditors or contributories upon petition to obtain an order from the court that the proceedings shall be carried out under its supervision. The manner and character of such control over the liquidator will be decided by the court ; this is imposed by sec. 199 of the Consolidated Act. This is a form of liquidation proceedings which may be said to be midway between the conditions which govern a winding up voluntarily and a compulsory winding up by the court. Under supervision, the conditions as regards the liquidator's relation to the court more nearly partake of the voluntary proceedings than the compulsory. The most important point to remember is that though the court has intervened and imposed certain conditions, it has no power to direct the manner of keeping any accounts or books whatever, nor is there any audit by the Board of Trade or any relations whatever with that department, neither is the liquidator under the control of a committee of inspection, as is provided for in the case of winding up by the court. A liquidator acting under the supervision of the court is, however, compelled to comply with sec. 224 in regard to filing a return of receipts and payments where the winding up has proceeded for more than a year; and at certain intervals thereafter in the same way as in a voluntary liquidation (see *infra*).

It is perhaps needless to add that in cases where a creditor or contributory, or bodies of either, have intervened, the proceedings are not likely to be of such a simple character as were outlined in the previous chapter. Notwithstanding this, the arrangements for keeping accounts may proceed on exactly

the same principle as therein described; the same form of accounts can be kept and statements of receipts and payments must be prepared and submitted at the prescribed times to both creditors and contributories, assuming the former not to have been paid off. It is also usual for a liquidator to state the causes which delay the determination of the proceedings and to furnish the creditors and contributories with the same information as is required on the back of the form shown on pages 329-332.

CHAPTER XXVIII

LIQUIDATION ACCOUNTS—COMPULSORY WINDING UP

THE subject of the two preceding chapters deals with forms of winding up which leave largely to the shareholders the right to consider their position; but where a condition of affairs has arisen involving a winding-up order by the Court, provided for by section 129 of the Companies Act, an entirely different phase presents itself. It is, of course, open to a company in general meeting to pass a special resolution that its affairs shall be wound up by the Court. In effect it performs an act similar to that of an ordinary trader, partnership or private individual who files his petition in bankruptcy; indeed, a condition of things ensues which, in broad aspects, very closely resembles that which obtains in the affairs of a bankrupt, though the position of a company under the process of compulsory liquidation is more involved; the procedure in many stages of the operations being much more complex.

In addition to resolving to wind up compulsorily, petitions may be made—

(i) For default in filing the Statutory Report or holding the Statutory Meeting.

(ii) Where business has not been commenced within a year of incorporation, or if a company has ceased its ordinary business operations for a year.

(iii) When the number of members of a public company has been reduced to less than seven; or, in a "private" company to less than two members.

(iv) If a company is unable to discharge its debts.

(v) When the Court considers it just and equitable that a company should be wound up.

Space prevents our going into the question as to who presents a petition, and under what circumstances it can be

made ; nor can we go into the matter dealing with the hearing of the petition or the consequences which immediately follow upon the issue by the Court of an order to wind up, nor questions involving the settlement of the lists of contributories, meetings of contributories and creditors, appointment of liquidator, or committees of inspection, proof of debts, etc. It will be our province to deal solely with the question of accounts and cognate subjects directly appertaining to the accounts.

Upon the issue of a winding-up order by the Court the Official Receiver is, by virtue of his office, provisional liquidator, and remains so until the contributories and creditors appoint a liquidator. The Official Receiver will also act in the event of the position of liquidator being vacant for any reason. The first step to be taken after the issue of the order will be a request to the directors and secretary to prepare a statement of affairs (section 147). This is a formidable document, or rather collection of documents, the forms for which are supplied by the Companies Liquidation Department of the Board of Trade ; a complete set appears on pages 364 to 384, and the forms contain examples of the entries to be made as compiled from the following position of affairs of Domestic Requisites, Ltd. It should be noted that under section 147, subsec. (5) any person who makes default in complying with the application of the Official Receiver for the preparation of a statement of affairs may be held liable to a penalty of ten pounds per diem for every day the default continues ; this is a personal liability incurred by each director and the secretary or other chief officer of the company. Recent instances have arisen where this penalty has been imposed on both directors and secretaries. If the Court so directs, any person who has acted in the formation of, or served the company within the space of one year, may be similarly dealt with. Fourteen days are allowed in which to make the return, but the Court may, at its discretion, extend the period for preparation. If appeal is made to the Court the cost of making this statement of affairs will be allowed out of the assets of the company.

In making out the statement of affairs, and in order to make the resultant figures of the Deficiency Account agree as shown, it is necessary to be provided with all details of receipts and expenditure, with gross and net profit or loss, for a period of three years if the company has been incorporated for a longer period; if not, these particulars must be available since incorporation. This information should be displayed in the manner shown in the example which follows, and should be accompanied by the company's balance sheet as last drawn up, the assets being annotated as to presumed current values. The whole procedure will be fully described at a later stage.

Unlike a liquidator under voluntary winding up or under supervision, this official, when concerned with a compulsory winding up, is compelled to keep a Record Book in which to enter the minutes of all proceedings and transactions of meetings of creditors, contributories, and committees of inspection; and a Cash Book, and where trading is still carried on, he is required to enter in the official Cash Book the weekly totals of receipts and payments arising out of the trading transactions. In this latter respect it is very important that careful discrimination is shown as between receipts and payments of the estate on the one hand and trading on the other. Trading by a liquidator under compulsory winding up is not very frequent, though commonly found in voluntary proceedings. On pages 385-6 are specimens of the Official Cash Book and Trading Account. The Cash Book and vouchers, with the Record Book, are to be subjected to audit at least once in every three months, by the Committee of Inspection, or the Official Receiver, whilst the trading account must be verified by affivadit once a month, and afterwards audited by the committee or one of their number appointed by them for the purpose.

Six months from the date of the winding-up order, and at every six months thereafter until the final meeting and dissolution of the company, the liquidator must forward to the Official Receiver his Cash Book and vouchers as audited,

with certificates of the committee as to the audit, a summarised statement of the affairs, giving in red ink the amounts realised for each asset and an explanation of the delay in realising any other property of the company. Where the assets have been all realised and distributed the account must be audited and sent to the Board of Trade without delay.

Assets are distributed in the following order, but as to the cost of the proceedings the Court may decide to vary the order—

1. Cost of petition.
2. Cost of winding-up proceedings.
3. Remuneration of Liquidator, etc. In general, the order usually follows that indicated on the specimen form of liquidator's account given on page 387.

Preferred debts are—

1. Local rates and King's taxes not exceeding one year prior to the date of winding up.
2. Salaries, not more than £50 in any individual case, nor for more than four months; and wages of workmen not exceeding £25 each, for more than two months.
3. Claims incurred and awarded under the Workmen's Compensation Acts prior to the date of winding up, and any accumulation of contributions under the National Insurance Act not exceeding four months prior to the winding-up order. Up to 31st December, 1923, preferential treatment for Workmen's compensation claims was limited to £100; but this limitation was removed by the Workmen's Compensation Act, 1923, section 19 (2).

These claims rank in priority over any charge which the company may have contracted by way of mortgage.

All cash in the hands of Liquidators over the amount of £50 must be paid into the Companies' Liquidation Account at the Bank of England.

As has been stated, the preparation of the statement of affairs, with its numerous subsidiary forms, is the first duty which falls upon the responsible officials of the Company,

directly a winding-up order has been made. In itself, the statement of affairs may be said to be a summarised form of the assets and liabilities of a company on the date of winding up. If a period should, as is most likely, intervene between the time of the winding-up order and the date of the last balance sheet, the books of the company must b written up in precisely the same manner as though the Directors were proceeding to issue their annual balance sheet. In the example appearing on pages 362–3, for the sake of simplicity, it is assumed that the winding-up order was made at the date of the last balance sheet which is given. Particular care must be observed by the officials responsible in estimating the probable realisable value of the various assets, and it must also be borne in mind that any official concerned in the preparation of the statement and its forms must be prepared to give to the Official Receiver any further information he may desire. Furthermore, after the presentation of the statement, this official, or such others concerned in the promotion or management of the company, must be prepared to appear before the Official Receiver at such times and places as he may deem necessary. Every care must be taken to see that all assets and liabilities are included in the balance sheet and summary of the Profit and Loss Account, before attempting to commence entries into the summary. It will be noticed that the character of the summary differs in many important respects from the usually accepted form of balance sheet. The purpose, however, is much the same in its ultimate result, the important exceptions being—

(*a*) The summary gives as the values of the assets the amounts which they are estimated to realise. In the case of stock-in-trade and freehold property, the actual cost of these items is also stated. With regard to other assets, the actual cost is not required in the summary, but it will be noticed later on, when dealing with List "H," which is a schedule of company's property, that estimated costs are to be given side by side with the estimated values for realisation.

(*b*) It is important to note the special treatment to be observed in regard to preferential creditors, the amounts due to them being deducted from the total value of the assets. In the same manner, liabilities due under mortgages are similarly treated. After making the two deductions referred to, the amount remaining is the sum available to meet the claims of the unsecured creditors, subject to the costs of liquidation.

(*c*) Secured creditors' claims have to be stated in conjunction with any assets of the company upon which they bear a specific charge. In the instance given it will be noted that the balance estimated for surplus, £7,900, is carried to the right-hand side of the summary.

These three points deal with the first portion of the summary, which is intended to deal particularly with the claims of ordinary creditors as distinguished from the claims of contributories or shareholders, which appear on the second portion and back of the form. In the second section of the summary, the respective claims of the various classes of contributories are set out. The deficiency or surplus shown on the first portion of the summary is also carried to the appropriate columns in the second section.

We will now deal with the various subsidiary forms, all of which have to be filled up and filed with the statement. They are officially referred to as "List 'A,' 'B,'" and so on, being collectively known as Form C.26, or in some cases C.33, required by the winding-up rules.

List "A." Unsecured Creditors. There are one or two important points to be observed in the preparation of this schedule. The creditors have to be divided into two groups. Those of £10 and upwards are to appear in the first portion of the list, the smaller amounts appearing in the same form later, but in both cases they have to be arranged in strict alphabetical order and numbered numerically throughout the two sections, that is to say, they should not be numbered afresh from unity onwards at the commencement of the second section, but should continue to the end.

The question of "set-off" arises in this list. Specific instructions are laid down that where a creditor also figures in the company's books as a debtor, the difference between his claim and the amount he owes the company is to be stated in List "A." The importance of this stipulation will be apparent if we consider the position of a creditor whose claim is entered for, say, £100, and who at the same time owes the company at the time of winding up, £50. He can only appear as a creditor for the balance of £50, and the method of arriving at that amount is to be stated in List "A" in the manner shown at the head of the form. If this principle were disregarded in the instance given, the creditor would receive, at a dividend of 13s. in the £1, £65, whilst he would have to pay back the £50 due to the company. When properly treated, however, the net result will be that he receives a dividend on £50 at 13s. in the £1, or £32 10s. This principle does not apply in regard to contributories liable for unpaid calls, and appearing in List "K" (*supra*).

In this List, all details in regard to bills of exchange, promissory notes, or I O U's held by a creditor are to be inserted below the name and address of the party concerned, and not in the last column provided for details of consideration for value.

Creditors who are or have been shareholders in the company, should be placed at the end of the List as contributories, and so described. The dates to be inserted in the List are those which represent the first item in any creditor's list of claims. Creditors who are also debtors to the company for a larger amount do not appear in List "A," but in List "I" (see *supra*), where the "set-off" principle also applies in the converse direction.

List "B." Creditors fully Secured. (Not including debenture holders.) This is a schedule of any debts contracted by the company, such as loans or overdraft with bankers, for which certain specific property of the company is pledged as security. The List must contain full particulars of the secured creditor, with his address and occupation, the amount

loaned and when, consideration for the loan, full particulars of any of the company's property secured, and date when that security was given. Details must also be shown as to estimated value of the property secured, and the estimated surplus from the security over and above the debt contracted.

List "C." Creditors Partly Secured. The same particulars are required in this instance as in List "B," with the exception that, as these creditors are only partly secured, there will be a claim against the company for the difference between the amount of the debt and the estimated value of the security. The amount of this unsecured balance is placed in the extreme right-hand column.

List "D." Liabilities on Bills Discounted. (Other than their acceptances for value.) This schedule is provided for the enumeration of details concerning bills which the company may have discounted. Any bills which have been so treated, and which have not, at the time of the winding-up order, reached maturity, must be included in this List, giving the acceptor's name and address and occupation, whether the company is liable as drawer or endorser, the date of maturity, and amount. The name of the holder, with his address and occupation, so far as is known, should be specified, and information should be given as to whether it is thought that the bill may be dishonoured, or if it is known that the acceptor has compounded with his creditors or has been declared bankrupt. The amount which it is expected to be claimed from the company should be inserted.

List "E." Other Liabilities. In this schedule must be detailed all particulars relating to contingent liabilities, giving the name of the creditor or other person who purports to have a claim against the company, his address and occupation, the amount claimed, the date when the debt was contracted, and the nature of the claim and consideration thereof. If the claim is more or less partly acknowledged by the company, an approximate amount should be inserted in the last column showing what figure it is thought may meet the circumstances. Claims under

pending litigation may be inserted, or uncalled amounts on any shares held by the company.

List "F." Preferential Creditors for Rates, Taxes, Salaries and Wages. All details of such items as here described, with creditors' names, addresses, occupations and claims, the period for which each item extends, and the date when due, must be inserted. In the instance given on page 373, it will be noted that two items are in excess of the amount which can be claimed for priority. This has been purposely done so that an opportunity may be provided to show how the adjustment is made when dealing with the Liquidators' accounts at a later time. In any case, when such a List as this is presented, the Official Receiver would note these discrepancies for the Liquidator's guidance, but if greatly in excess, the adjustments would have to be made before the statement of affairs was accepted, as this would naturally affect the amount of preferred creditors and unsecured creditors. We have previously dealt with the nature and character of such items as may be claimed for priority, on page 339.

List "G." List of Debenture Holders. Where only one series of debentures exists, these can be tabulated on the List, giving holder's name and address, the amount of the debentures, and a general description of the property on which the charge is held, but if different series of debentures exist, these must be shown on separate Lists, and in precisely the same manner, fully describing the relationship between the different series. It will be noted, on page 374, in the example given, that the charge in this instance is effected upon all the company's assets except freehold property. It will be remembered that the bankers, in List "B," hold a specific charge for overdraft.

List "H." Property. This List contains details of the general property of the company with the exception of book debts, bills, and unpaid calls, stated in such a manner as readily to distinguish between the book values of the several items and the amounts which it is estimated they will

produce when realised. All property belonging to the company not included in Lists "I," "J," and "K," must appear on List "H."

List "I." Debts due to the Company. This is practically the converse of List "A." The company's debtors are alphabetically arranged and numbered, but their accounts are arranged under the three heads of "Good," "Doubtful," and "Bad." In this instance the schedule requires information as to where details of each entry may be found in the company's books, though this is not asked for in List "A." The period over which the debts extend in each instance must be noted, and also the amounts they are expected to produce. Where the company holds any security for any of the amounts, such as a lien on goods or other property held, full details must be entered in the extreme right-hand column. For example, if the company has been manufacturing goods for one of its customers on the condition that certain of the goods are retained pending payment, this is a good lien for its claim, and should be entered on the List, giving the approximate value of the goods so held.

The question of "set-off" also arises in connection with this List to the extent that where a debtor who is at the same time a creditor of the company for a less amount than appears in the List, the entry must be made as shown at the head of the specimen List, and his name would not then appear in List "A."

List "J." Bills of Exchange, Promissory Notes, etc. The particulars required here are the name of the acceptor of any unmatured bill or note held by the company, the address of the acceptor, the amount, the date of maturity, and the estimated amount it will produce, and whether any property is held as security for the bill, of a similar character to that described in List "I." Full particulars must be noted.

List "K." Unpaid Calls. For the purpose of winding up, any unpaid calls are to be regarded on the footing of realisable assets. The schedule calls for details giving reference in the share register, name, address, and occupation of the

shareholder, number of shares, and the total amount unpaid against each entry, with the amount which it is estimated each item will realise.

List "L." Founders' Shares.

List "M." Ordinary Shares.

List "N." Preference Shares.

These three Lists deal with the various classes of shareholders under their respective headings. As with all other Lists, entries have to be made in alphabetical order with names, addresses, share register numbers, nominal amount of shares, shares held, and the full amount of the holding as called up. The question of alleged contributories or shareholders does not arise at this juncture. It is for the Liquidator or the Official Receiver to determine these points after the full investigation of the share registers and entries from the transfer deeds, and the deeds themselves. Neither is it necessary in these three Lists to distinguish in separate sections between shareholders in their own right and those who are merely representatives of others, but if a shareholder is deceased, in bankruptcy, or *non compos mentis*, the name of his or her representative must be given, with the address, and in what capacity he acts, e.g. as trustee, executor, or as the case may be.

List "O." Deficiency Account. The official forms dealing with this account are termed List "O" (1) and List "O" (2). The first is drawn up where the company has been in existence less than three years. The second is utilised where incorporation took place more than three years previously, and where, consequently, three years' Revenue Accounts exist. The purpose of this account is to show in minute detail the precise position of the financial affairs after making due allowance for all profits and losses arising, not only throughout the period covered by the Profit and Loss Account involved, but also such further losses as may accrue, and which are almost certain to accrue, by reason of the assets having to be valued on the assumption that the business is ceasing to be a going concern.

The starting-point, assuming as in the instance given, that the "O" (2) Form is requisitioned, is to state in the extreme top right-hand corner the amount represented by the losses as they were known three years previously; or, conversely, if at the commencement of the three years the company was able to show a profit, the amount of such profit would be entered in the left-hand column. In either case, the next step would be to insert the full amounts, for the period taken, of the various items of general expenditure under the various heads as shown in the tabulated example, page 383. Then would follow the amount of any Directors' fees paid or due covering the same period, the same particulars as to dividends declared or paid, and all losses or depreciation actually sustained and written off in the company's books during that period. The most important part under section 6 of this Form is to ascertain the extent of any losses and the amount of depreciation arising from the probable depreciated values of the company's property by reason of the winding up alone. Any further losses or expenditure not covered by the various sections in the right hand of the account should be separately detailed on a schedule by itself, and the total carried to the account. The result of this will show the total deficiency, subject only to such items as may appear upon the left hand of the account. The difference between the two sides represents the deficiency which is shown in Part 2 of the summary of the statement of affairs, and must agree with that amount.

It is important carefully to note the particulars to make up the amount of £65,060 in the example given. This is arrived at by examining the items enumerated in the balance sheet on page 363, whereon are noted various amounts estimated for current values, which in the present instance are to be presumed as values for realisation. The amounts stated in the column represent the book values as they appear at the date of balancing for winding up. The reason for including the amount of £65,060 is that it represents an additional loss, owing to the writing down of these assets, for

the purpose of realisation, to their presumed values. The amount is arrived at as shown in the following table.

	Book Value.	Estimated present value.	Difference.
	£	£	£
Freehold property	14500	10000	4500
Patents, Trade Marks, etc...	44000	3000	41000
Machinery, Fittings & Plant	16850	5500	11350
Rolling Stock, Cars, etc. ..	3060	800	2260
Stores	1200	850	350
Stock	8600	3000	5600
	£88210	£23150	£65060

This item, as will be observed, is collectively stated under section 6 dealing with losses. Other similar losses arise in winding up, for book debts and investments are separately stated and valued, and the further loss for each is to be shown.

Any other loss or special expenditure not enumerated in List " O " (2), is to be separately specified under section VII of that Form, and if they are numerous or require special explanation, a separate schedule should be provided and attached to the List.

List " P." This is a summary of the various Schedules. Lists " A—O " are to be returned with the general statement of affairs. On List " P " are to be noted any special remarks applicable to each of the other schedules, but more especially it must be noted that if any List is returned without any particulars being inserted, the word " Nil " to be marked against that List.

It is thought that by a careful perusal of the example given on pages 362–3, and if the entries on the Balance Sheet of the Profit and Loss Account as summarised for the three years are followed into the summary of the statement of affairs, and the subsidiary schedules are examined with the Deficiency Account, little difficulty should arise in the preparation of this somewhat difficult and involved return.

Under the heading of "Voluntary Liquidation," it is stated that Liquidators are not called upon to keep any specific form of account which would show the whole of their transactions in a systematised manner. It has been previously stated also that a Liquidator in compulsory winding up is merely called upon to keep a Cash Book and a Record Book. The majority of accountants who act in this capacity find this system of mere simple entry unsatisfactory, in that it does not provide them with the full details, showing the thorough working of the Realisation Accounts and the Profit and Loss Accounts in the course of liquidation. It must be borne in mind, however, that the Statutory Cash Book, shown on page 385, *must be kept.* This in many instances has been utilised as part of the scheme of accounts which we shall set out in detail in the concluding pages of this chapter. For the sake of simpler treatment in the confined limits of these pages, we have adopted, in the example of the accounts to follow, a separate or auxiliary Cash Book to the one which the Liquidator must keep as provided for by the statutes. It is, however, possible to dispense with this simple form of Cash Book and to use the Statutory Cash Book which is convenient for its tabular form, the periodical totals being from time to time posted to the different Ledger Accounts dealing with the liquidation.

It will be readily conceded that the above arrangement of writing up the Liquidation Accounts in proper journal form, and the subsequent treatment in Ledger Accounts, is the only one which can afford satisfaction to officials responsible for the somewhat involved procedure of winding up. It is the only method by which the realisation of assets accounts and the final winding up accounts can be adequately shown, and the systematic arrangement of these accounts will be of the greatest assistance to the Liquidator, particularly when confronted with awkward questions arising at the final winding-up meeting.

It will be seen in the pages which follow that the journal and ledger transactions are more extensive than in the example

given in voluntary liquidation. The adjustment entries have been so selected as to provide a varied number of instances which will occur and call for adjustment. They are probably a small fraction of the number which are encountered in actual practice, but they have been so selected as to afford the widest range of instruction. Where entries occur in the Liquidator's Record or Minute Book from which a journal entry arises, reference should be made in the narrating portion of the journal entry to the Record or Minute Book and its number.

In such a system of accounting, it will be simpler to follow the summary of Liquidator's accounts to be prepared at statutory intervals and at the conclusion of the liquidation. The form prescribed for this appears on page 387. The set of accounts, however, as we have detailed them, are merely kept for the Liquidator's convenience, but he can, of course, produce any of these books when so called upon. It should be noted that where the proceedings are protracted, and a series of these summaries are prepared, each successive summary does not contain a progressive or cumulative total at each stage. The accounts for Receipts and Payments in the summary are merely those which represent transactions from one date to another, so that in the final return, where a series of dividends have been paid to, say, unsecured creditors, the final dividend only will appear in the last return, assuming that dividend to be the only one in the period represented at the head of the statement, and no reference is made in that statement to former transactions beyond the statement of any balance in hand or owing.

The form for Trading Account appearing on page 386 requires very careful consideration, and it is very frequently found that liquidations conducted by the Court embrace a continuance of the company's operations in whole or in part. Great care must be exercised in keeping separate all receipts and payments arising from the ordinary course of trading as and from the date of the winding-up order. All these transactions must be described in detail from time to time, as previously mentioned on the form quoted above.

DOMESTIC REQUISITES, LTD., IN LIQUIDATION

JOURNAL.	£	s.	d.	£	s.	d.
Liquidation Account .. Dr.	133900	0	0			
To *Sundry Liabilities*						
Preference Contributories, 50,000 £1 Preference Shares fully paid (less £40 calls unpaid).				49960	0	0
Ordinary Contributories, 50,000 £1 fully paid Ordinary Shares ..				50000	0	0
Debenture Holders, 50 £1000 5 per cent Mortgage Debentures, carrying general charge				5000	0	0
Floyd & Barrs Banking Co., Overdraft secured on Deeds for Freehold property of the Company ..				2100	0	0
Sundry Preferential Claims—						
Salaries				160	0	0
Blanktown Corporation (rates) ..				40	0	0
Sundry Unsecured Creditors (including Bills payable £14500) .. (as per the Company's books at date of Winding-up Order).				26640	0	0
Sundry Assets .. .. Dr.						
To *Liquidation Account*				133900	0	0
Freehold Property .. .. Dr.	14500	0	0			
Patents, Trade Marks, etc. ..	44000	0	0			
Machinery, Fittings, etc.	16850	0	0			
Rolling Stock and Cars	3060	0	0			
Stores	1200	0	0			
Stock..	8600	0	0			
Sundry Trade Debtors	9280	0	0			
Investments	1500	0	0			
Cash (in hand). (See *Cash Book*)	14	0	0			
Profit and Loss Account .. .. (as per the Company's books at date of Winding-up Order.)	34896	0	0			
Unpaid Calls .. .. Dr.	40	0	0			
To *Preference Contributories Account* For unpaid calls of Carmichael and Slipaway (both Preference) as per List "K" in Statement of Affairs.				40	0	0
Sundry Preferential Claims .. Dr.	160	0	0			
To *Sundry Unsecured Trade Creditors* For two salary claims of £80 each, only ranking as to £50 each for priority				160	0	0

JOURNAL—(*contd.*).	£	s.	d.	£	s.	d.
Liquidation (Adjustment) Account Dr.	187	0	0			
To *Sundry Unsecured Creditors* ..				187	0	0
For sundry claims as proved and accepted but not included in List "A" of Statement of Affairs, now added to Schedule.						
Sundry Unsecured Creditors .. Dr.	21	0	0			
To *Liquidation Adjustment Account*				21	0	0
For two items Nos. 57 and 93 in List "A" of Statement of Affairs not proven and disallowed.						
Preference Contributories .. Dr.	60	0	0			
To *Liquidation Adjustment Account*				60	0	0
To write back 60 Preference Shares in the name of I. H. Carmichael, share register folio 79, unpaid calls upon this holding being first item in List "K" of Statement of Affairs irrecoverable. Shares consequently not ranking as per Company Articles, clause 27.						
Liquidation Adjustment Account Dr.	137	0	0			
To *Debenture Holders*				137	0	0
For interest accrued from date of last Balance Sheet to time of payment of secured claims, interest ranking concurrently as secured claim.						
Unsecured Creditors .. Dr.	300	0	0			
To *Liquidation Adjustment Account*				300	0	0
For waivers of claims for fees of three Directors included in Statement of Affairs (one claim of £100, Mr. Maurice Jacob, remaining).						
Realisation of Assets Account Dr.	72851	0	0			
To *Sundry Assets*—						
Freehold Property				5750	0	0
Patents, Trade Marks, etc. ..				42750	0	0
Machinery Fittings, etc. ..				12750	0	0
Rolling Stock, Cars, etc. ..				2510	0	0
Stock				5200	0	0
Investments				1500	0	0
Debtors				2361	0	0
Unpaid Calls				30	0	0
(being losses on realisation).						

Journal—(*contd.*).	£ s. d.	£ s. d.
Note.—*Any available information which could be added to any of these items under the different assets should be made in the usual form of Journal narration, e.g. under "Investments." "The* 1,500 £1 *Shares in the British Patents Developments Ltd., wound up in Liquidation, unable to pay its Creditors' claims (see Minute No.* 58)."		
Stores .. .. Dr.	200 0 0	
To *Realisation of Assets*		200 0 0
Being gain on Realisation.		
Preference Contributories Account Dr.	49940 0 0	
Ordinary Contributories Account ..	50000 0 0	
To *Final Winding-up Account* ..		99740 0 0
Amounts transferred, realisation of assets being insufficient to meet Creditors.		
Unsecured Creditors .. .. Dr.	9298 0 0	
To *Final Winding-up Account* ..		9298 0 0
Being deficiency against claims of creditors.		
Liquidation Adjustment Account Dr.	34 0 0	
To *Final Winding-up Account* ..		34 0 0
For balance of sundry adjustments by Liquidator, written off.		
Final Winding-up Account Dr.	34896 0 0	
To *Profit and Loss Account* ..		34896 0 0
For loss at date of commencement of winding up.		
Final Winding-up Account Dr.	72651 0 0	
To *Realisation of Assets*		72651 0 0
For further net losses arising in course of winding up.		
Final Winding-up Account Dr.	1718 0 0	
To *Cost of Liquidation Account* ..		1718 0 0
Being total cost of Liquidation expenses transferred.		
Final Winding-up Account Dr.	7 0 0	
To *Cash Account* (see Cash Book)		7 0 0
Being undistributable balance at Bank of England (Companies Liquidation).		

CASH ACCOUNT

BANK OF ENGLAND (COMPANIES' LIQUIDATION ACCOUNT).

To Balance in hand at date of Winding-up Order	£14	0	0	By Board of Trade and Court Fees	£238	0	0
„ Trade Debtors—Good	6151	0	0	„ Petitioners' Law Costs	79	0	0
„ „ „ Doubtful & Bad	768	0	0	„ Solicitors' Charges (advising)	33	0	0
„ Freehold Property sold by auction	8750	0	0	„ Law Costs *re* Unpaid Calls	2	0	0
„ Patent Rights sold by Private Treaty ..	815	0	0	„ Preparation of Statement of Affairs allowed by Court ..	12	0	0
„ Trade Marks, do. do.	435	0	0	„ Official Receiver's fees	39	0	0
„ Proceeds of Auction Sales—				„ Liquidator's Remuneration	203	0	0
Machinery & Plant .. £4100				„ Auctioneer's charges, property sale ..	435	0	0
Cars .. 550				„ Auctioneer's charges, plant, etc.	560	0	0
Stores .. 1400				„ Patent Agent's charges	67	0	0
Stock .. 3400	9450	0	0	„ Shorthand Writer's charges	5	0	0
„ Unpaid Calls .. (Slipaway.)	10	0	0	„ Printing	18	0	0
				„ Postages	15	0	0
				„ Stationery	9	0	0
				„ *Gazette* Notices ..	3	0	0
				„ Debenture Holders fully secured ..	5137	0	0
				„ Floyd & Barrs Banking Co. (fully secured	2123	0	0
				„ Preferential Claims—			
				Salaries	100	0	0
				Rates	40	0	0
				First composition to creditors, £26566 at 5s.	6641	0	0
				Second do. at 5s. ..	6641	0	0
				Third and Final at 3s.	3986	0	0
				„ Balance	7	0	0
	£26393	0	0		£26393	0	0

NOTE.—*It has been explained that this form of Cash Book has been introduced here for the purpose of completing the scheme of accounts illustrated in this example. The Statutory Cash Book, p. 327, can be utilised for the purpose equally well, by posting the tabular total from time to time. The above entries would amount to many times those shown.*

LIQUIDATION ACCOUNT

To Sundries	£133900	0	0	By Sundries	£133900	0	0

PREFERENCE CONTRIBUTORIES

To Liquidation Adjustment A/c	£60	0	0	By Liquidation A/c ..	£49960	0	0
„ Final Winding-up A/c	49940	0	0	„ Unpaid Calls ..	40	0	0
	£50000	0	0		£50000	0	0

ORDINARY CONTRIBUTORIES

To Final Winding-up A/c	£50000	0	0	By Liquidation A/c ..	£50000	0	0

DEBENTURE HOLDERS

	£	s.	d.		£	s.	d.
To Cash	£5137	0	0	By Liquidation A/c ..	£5000	0	0
				,, Liquidation Adjustment A/c	137	0	0
	£5137	0	0		£5137	0	0

FLOYD & BARRS BANKING COMPANY

	£	s.	d.		£	s.	d.
To Cash	£2123	0	0	By Liquidation A/c ..	£2100	0	0
				,, Liquidation Adjustment A/c	23	0	0
	£2123	0	0		£2123	0	0

SUNDRY PREFERENTIAL CLAIMS

	£	s.	d.		£	s.	d.
To Sundry Unsecured Creditors (Salaries) ..	£60	0	0	By Liquidation A/c .. Salaries	£160	0	0
,, Cash—Salaries ..	100	0	0				
,, ,, Rates	40	0	0	Blanktown Corporation	40	0	0
	£200	0	0		£200	0	0

SUNDRY UNSECURED CREDITORS

	£	s.	d.		£	s.	d.
To Liquidation Adjustment A/c	£21	0	0	By Liquidation A/c ..	£26640	0	0
,, ,, ,,	300	0	0	,, Sundry Preferential Claims	60	0	0
,, Cash, 1st Compositn.	6641	0	0				
,, ,, 2nd ,,	6641	0	0	,, Liquidation Adjustment A/c	187	0	0
,, ,, Final ,,	3986	0	0				
,, Final Winding-up A/c	9298	0	0				
	£26887	0	0		£26887	0	0

FREEHOLD PROPERTY

	£	s.	d.		£	s.	d.
To Liquidation A/c ..	£14500	0	0	By Cash	£8750	0	0
				,, Realisation of Assets	5750	0	0
	£14500	0	0		£14500	0	0

PATENTS, TRADE MARKS, ETC.

	£	s.	d.		£	s.	d.
To Liquidation A/c ..	£44000	0	0	By Cash Patents ..	£815	0	0
				,, Trade Marks ..	435	0	0
				,, Realisation of Assets	42750	0	0
	£44000	0	0		£44000	0	0

MACHINERY, FITTINGS, ETC.

	£	s.	d.		£	s.	d.
To Liquidation A/c ..	£16850	0	0	By Cash	£4100	0	0
				,, Realisation of Assets	12750	0	0
	£16850	0	0		£16850	0	0

ROLLING STOCK, CARS, ETC.

To Liquidation A/c ..	£3060	0	0	By Cash	£550	0	0
				„ Realisation of Assets	2510	0	0
	£3060	0	0		£3060	0	0

STORES

To Liquidation A/c ..	£1200	0	0	By Cash	£1400	0	0
„ Realisation of Assets	200	0	0				
	£1400	0	0		£1400	0	0

STOCK

To Liquidation A/c ..	£8600	0	0	By Cash	£3400	0	0
				„ Realisation of Assets	5200	0	0
	£8600	0	0		£8600	0	0

SUNDRY DEBTORS

To Liquidation A/c ..	£9280	0	0	By Cash, Good A/cs ..	£6151	0	0
				„ „ Doubtful & Bad	768	0	0
				„ Realisation of Assets	2361	0	0
	£9280	0	0		£9280	0	0

INVESTMENTS

To Liquidation A/c ..	£1500	0	0	By Realisation of Assets	£1500	0	0
	£1500	0	0		£1500	0	0

PROFIT AND LOSS ACCOUNT

To Liquidation .. .. (at date of Winding Up)	£34896	0	0	By Final Winding-up A/c	£34896	0	0
	£34896	0	0		£34896	0	0

UNPAID CALLS

To Preference Contributories	£40	0	0	By Cash, Slipaway ..	£10	0	0
				„ Realisation of Assets	30	0	0
	£40	0	0		£40	0	0

LIQUIDATION ADJUSTMENT ACCOUNT

To Unsecured Creditors	£187	0	0	By Unsecured Creditors	£21	0	0
,, Debenture Holders ..	137	0	0	,, Preference Contributories	60	0	0
,, Floyd & Barrs Banking Co.	23	0	0	,, Unsecured Creditors	300	0	0
,, Final Winding-up A/c	34	0	0				
	£381	0	0		£381	0	0

REALISATION OF ASSETS ACCOUNT

To Freehold Property Loss	£5750	0	0	By Stores Gain	£200	0	0
,, Patents, Trade Marks, etc.	42750	0	0	,, Final Winding-up A/c	72651	0	0
,, Machinery Fittings, &c.	12750	0	0				
,, Rolling Stock, Cars, &c.	2510	0	0				
,, Stock	5200	0	0				
,, Investments	1500	0	0				
,, Debtors	2361	0	0				
,, Unpaid Calls ..	30	0	0				
	£72851	0	0		£72851	0	0

COST OF LIQUIDATION ACCOUNT

To Cash A/c—				By Final Winding-up A/c	£1718	0	0
Board of Trade and Court Fees ..	£238	0	0				
Petitioner's Law Costs	79	0	0				
Solicitor's Charges	33	0	0				
Law Costs (unpaid Calls)	2	0	0				
Preparation of Statement of Affairs ..	12	0	0				
Official Receiver's Fees	39	0	0				
Liquidator's Remuneration	203	0	0				
Auctioneer's Charges—							
Property	435	0	0				
Other effects ..	560	0	0				
Patent Agent's Fees and Charges ..	67	0	0				
Shorthand Writer's Charges	5	0	0				
Printing	18	0	0				
Postages	15	0	0				
Stationery	9	0	0				
Gazette Notices ..	3	0	0				
	£1718	0	0		£1718	0	0

FINAL WINDING-UP ACCOUNT

To Profit and Loss A/c—				By Preference Contributories	£49940	0	0
Loss at commencement of Winding Up	£34896	0	0	,, Ordinary Contributories	50000	0	0
Realisation of Assets further losses in Winding Up ..	72651	0	0	,, Unsecured Creditors' Deficiency	9298	0	0
Cost of Liquidation	1718	0	0	,, Liquidator's Adjustments of Liabilities and Claims	34	0	0
Cash at Bank of England	7	0	0				
	£109272	0	0		£109272	0	0

All vouchers in connection with this form must be carefully numbered and filed ready for verification by the committee of inspection.

At the foot of the Statement of Affairs which appears on page 364, will be found space for giving information in regard to unpaid capital. This is necessary where a company in liquidation has a certain portion of its share capital uncalled, for which the shareholders are liable in winding up. Such a situation is rarely found in the case of commercial and industrial undertakings, but is common in regard to banking and insurance companies where uncalled capital is frequently regarded as a sort of asset. In any case it would be treated as a resource on which the management could fall back in case of need. In such instances it rests entirely with the Official Receiver or the Liquidator to make a call on the contributories, and he must be guided entirely by the conditions of the Articles of Association or the stipulations under which the shares are held. Again, it is not infrequently found that debentures are issued carrying a charge on uncalled capital, and if so, these conditions must be stated in the space provided at the foot of the statement of affairs as shown. This is a subject which it will be impossible to deal with here in any detail, and the reader is directed to the Company Winding-up Rules, clauses 83-87, and also to Forms 52-62 inclusive, specimens of which are published with the Company Winding-up Rules, 1909 and 1921, and can be obtained from the King's printers.

In all cases where the question of unpaid capital arises in a winding up, the important procedure known as " settling the list of contributories " is called for. This is covered by the Winding-up Rules 77-82, which require the Liquidator to settle without delay the various claims of the contributories as represented by the books of the company. In this task he is primarily guided by the Lists " L," " M," and " N," dealt with under the subject of the Statement of Affairs (see *infra*). These Lists merely provide the Liquidator with the groundwork upon which he is to base his investigations,

and from the entries made in the several Lists he prepares the information called for in the Winding-up Rules, Forms Nos. 42-45. A very important point to be borne in mind is the perusal of all transfer deeds and the register of transfers in relation to all entries made from that book into the register of members, for it must be remembered, in the case of uncalled capital, that all persons who have ceased to be members during a period of less than one year from the commencement of the winding up are liable for the debts of the company if the existing members fail to meet them, but no person being a past member of the company is liable for debts which have been incurred after the date upon which his membership ceased. Care must be observed in drawing up the list of contributories to distinguish between those shareholders who figure as beneficiaries and those who appear in the List in a representative capacity. The Lists, as in the case of Form 45, also provide for the names of such persons as have been excluded from the list of contributories by the Liquidator, and, furthermore, these have also to be arranged under two heads, distinguishing those who figure in their own right and those who stand as representatives for others, such as deceased shareholders, bankrupts, or others whose estates are under the Lunacy Commissioners.

All creditors appearing in the different Lists filed with the Statement of Affairs are required to give proof on their debt under oath, as provided for on Form 63 of the Winding-up Rules, but it is open to the Court to admit a creditor or class of creditors without proof. Proofs must be sworn before a duly authorised Officer of the Board of Trade. Workmen prove on a separate Form, No. 64, and where there are numerous claims for wages, one proof for the whole will suffice if the proof is made by a foreman or some other person on behalf of those creditors. All proofs of, or above, the amount of £2 must bear the customary stamp of 1s., for which the creditor is responsible; claims below that amount are admitted without cost. When all the proofs have been lodged the Liquidator is required to make a schedule of the whole

of the claims on Form 66, distinguishing between those which have been rejected or partly rejected in the cash columns provided. At a later stage, when proofs have been finally settled, a further list is prepared on Form 68, distinguishing claims under £2, from those of, or above, that figure. For the purpose of paying dividends to the settled list of creditors, Form 69 is requisitioned, which is to state the amount proved for and the amount to be paid out as dividend. Each dividend or composition made out is to be made on Form 95, which also gives the amount of proof, the amounts which have been paid, and such amounts as have been unclaimed.

Where the surplus is sufficient to pay a dividend to contributories, which is, of course, paid in order of priority, if one class has prior rights, Form 96 is provided. One of these forms for the payment of dividends or compositions, either creditors or contributories, is used with each payment or instalment, specifying whether first, second, or final, as the case may be.

In the pages which follow is an example of a Balance Sheet and three years Profit and Loss Account referred to in previous pages, together with the whole of the Statutory forms making up a Statement of Affairs and its Subsidiary returns " A " to " P." The Journal and Ledger entries arising from the Balance Sheet and Profit and Loss Account above-mentioned will be found *infra* pages 351 to 357 inclusive.

LIABILITIES — BALANCE SHEET AT DATE

	£	s.	d.	£	s.	d.
Authorised Capital—						
50,000 Preference Shares of £1 each ..	50,000	0	0			
50,000 Ordinary Shares of £1 each ..	50,000	0	0			
				100,000	0	0
Capital Issued—						
50,000 Preference Shares	50,000	0	0			
50,000 Ordinary Shares	50,000	0	0			
	100,000	0	0			
Less Calls unpaid, considered irrecoverable	40	0	0			
				99,960	0	0
50 £100 5 % Debentures against general effects				5,000	0	0
Sundry Creditors as follows—						
Bank overdraft (secured on Freehold Property £10,000)	2,100	0	0			
Salaries and Wages	160	0	0			
Rates	40	0	0			
Bills Payable (Company's acceptances) ..	14,500	0	0			
Unsecured Creditors	12,140	0	0			
				28,940	0	0
				£133,900	0	0

Amounts debited to Profit and Loss Account are as follows—

	19..			19..			19..			*Totals.*		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Salaries	3,600	0	0	3,450	0	0	3,200	0	0	10,250	0	0
Commissions	1,780	0	0	1,960	0	0	1,890	0	0	5,630	0	0
Rent	860	0	0	869	0	0	875	0	0	2,604	0	0
Rates and Taxes ..	459	0	0	463	0	0	471	0	0	1,393	0	0
Insurance	231	0	0	248	0	0	259	0	0	738	0	0
Trade Expenses, Advertising, and Repairs ..	3,610	0	0	3,580	0	0	3,795	0	0	10,985	0	0
Interest	461	0	0	483	0	0	456	0	0	1,400	0	0
Debenture Interest ..	140	0	0	250	0	0	250	0	0	640	0	0
Directors' Fees	400	0	0	400	0	0	400	0	0	1,200	0	0
Bad Debts	249	0	0	953	0	0	1,341	0	0	2,543	0	0
Depreciation	1,210	0	0	1,255	0	0	1,300	0	0	3,765	0	0
Law Costs				896	0	0	1,189	0	0	2,085	0	0
£	13,000	0	0	14,807	0	0	15,426	0	0	43,233	0	0

F WINDING-UP ORDER ASSETS

	£	s.	d.	£	s.	d.
reehold Property				14,500	0	0
(valued at £10,000)						
atents, Trade Marks, etc.				44,000	0	0
(valued at £3,000)						
achinery, Fittings, and Plant.				16,850	0	0
(valued at £5,500)						
olling Stock, Cars, etc.				3,060	0	0
(valued at £800)						
tores				1,200	0	0
(estimated to realise £850)						
tock				8,600	0	0
(estimated to realise £3,000)						
ook Debts				9,280	0	0
Good 6,500 0 0						
Doubtful .. 1,000 0 0						
(estimated to realise £500)						
Bad 1,780 0 0						
ivestments				1,500	0	0
(estimated to realise £400)						
ash in hand				14	0	0
rofit and Loss Account				34,896	0	0
				£133,900	0	0

The Balance Sheet prepared three years previously exhibited an excess f capital and liabilities over assets of £14,569. A copy of this, and all ther earlier balance sheets, is to be attached to the deficiency account.

Gross Profits in each of the three succeeding years, including the year nded when the above balance sheet was drawn up, were as follows—

	19..			19..			19..			Totals.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
ross Profits	8,877	0	0	7,813	0	0	6,201	0	0	22,891	0	0
ransfer Fees	10	0	0	5	0	0				15	0	0
et Losses	4,113	0	0	6,789	0	0	9,425	0	0	20,327	0	0
	13,000	0	0	14,607	0	0	15,626	0	0	43,233	0	0

No. C 26.

Statement of Affairs.

[1] Insert full name of Company.

In the *High* Court of *Justice*

IN THE MATTER OF THE COMPANIES CONSOLIDATION ACT, 1908,

AND

IN THE MATTER OF[1] *DOMESTIC REQUISITES*, LIMITED.

STATEMENT OF AFFAIRS on the 1*st* day of *April*, 19...., the date of the Winding-up Order.

(I.) As Regards Creditors.

Gross Liabilities £	s.	d.	Liabilities.	£	s.	d.	Expected to Rank £	s.	d.	Assets.	£	s.	d.	Estimated to Produce £	s.	d.
			Debts and Liabilities, viz.—							(*a*) Property, as per List "H," viz.—						
										(*a*) Cash at Bankers						
										(*b*) Cash in hand				14	0	0
26,640	0	0	(*a*) 305 Unsecured Creditors, as per list "A" (*state number*)				26,640	0	0	(*c*) Stock-in-trade				3,850	0	0
										(Estimated Cost, £9,800 0s. 0d.) (*d*) Machinery .. .. .. (*e*) Trade Fixtures, Fittings, Utensils, etc.				5,500	0	0
			(*b*) 1 Creditor fully secured (not including debenture holders) as per list "B"	2,100	0	0				(*f*) Investments in Shares, etc. ..				400	0	0
2,100	0	0	Estimated value of Securities	10,000	0	0				(*g*) Loans on Mortgage						
			Estimated Surplus ..	7,900	0	0				(*h*) Other Property, viz.— Freehold Property £10,000 (cost £14,500) held as security per contra Trade Marks, Patents, Cars, etc. ..				3,800	0	0
			Carried to List "C" £											13,564	0	0
			Balance to contra (*d*) £	7,900	0	0				(*b*) Book Debts (514 debtors), as per List "I," viz.—						
										Good				6,500	0	0
			(*c*) Creditors partly secured, as per List "C" ..	*Nil*						Doubtful	1,000	0	0			
			Less estimated Value of Securities							Bad	1,790	0	0			
											2,780	0	0			
			Estimated to rank for dividend ..							Estimated to produce				500	0	

£	s.	d.	Liabilities	£	s.	d.
			(d) Liabilities on Bills discounted other than the Company's own acceptances for value, as per List " D " .. .. : :			
			Of which it is expected will rank for dividend.			
			(e) Other Liabilities as per List " E " .. .. .. : :			
			Of which it is expected will rank for dividend.			
200	0	0	(f) Preferential Creditors for Rates, Taxes, Wages, etc., as per List " F," deducted contra	200	0	0
5,000	0	0	(g) Loans on Debenture Bonds, as per List " G," deducted contra .. (17 holders)	5,000	0	0
			Estimated Surplus (if any) after meeting liabilities of Company, subject to cost of liquidation	£		
£33,940	0	0		£ 26,640	0	0

Assets	£ s. d.	£	s.	d.
(c) Bills of Exchange or other similar Securities on hand as per List " J " .. .. :				
Estimated to produce		*N*	*i*	*l*
(d) Surplus from Securities in the hands of Creditors fully secured (*per contra*) (b)		7,900	0	0
(e) Unpaid Calls (*two* debtor's as per List " K ")—	40 0 0			
Estimated to produce		10	0	0
Estimated Total Assets		28,474	0	0
Deduct Preferential Creditors as *per contra* (f)		200	0	0
Estimated Amount available to meet Claims of Debenture Holders		28,274	0	0
Deduct Loans on Debenture Bonds secured on the Assets of the Company as *per contra* (g)		5,000	0	0
Estimated Amount available to meet Unsecured Creditors, subject to Cost of Liquidation		23,274	0	0
Estimated Deficiency of Assets to meet Liabilities of the Company, subject to Cost of Liquidation		3,366	0	0
		£ 26,640	0	0

The nominal amount of unpaid capital liable to be called up is £ *nil*, which is (available to meet above deficiency) or (charged to debenture holders), or as the case may be.

(FOR CONTINUATION SEE OVER.)

(II.) As Regards Contributories

(*a*) Where capital is issued as partly paid up, the form should be altered accordingly.

(*b*) Add particulars of any other capital.

	£	s.	d.	£	s.	d.		£	s.	d.
Capital issued and allotted, viz.— ———Founders' Shares of £ per Share (———Shareholders).							Estimated Surplus as above (if any), subject to Cost of Liquidation			
(*a*) Issued as fully paid.										
Amount called up at £ per Share, as per List " L "										
50,000 Ordinary Shares of £1 per Share (178 Shareholders).										
(*a*) Issued as fully paid.	50,000	0	0							
Amount called up at £ per Share as per List " M "										
50,000 Preference Shares of £1 per Share (310 Shareholders).										
(*a*) Issued as fully paid.										
Amount called up at £1 per Share, as per list " N "	50,000	0	0							
(*b*)										
Amount (if any) paid in advance of call										
	£ 100,000	0	0							
Less Unpaid Calls estimated to be irrecoverable	30	0	0				Total deficiency as explained in Statement " O " ..	103,336	0	0
				99,970	0	0				
Add deficiency to meet Liabilities as above				3,366	0	0				
				£ 103,336	0	0		£ 103,336	0	0

I, *Samuel Sly,* of 35 *Brick Court, London, E.C.*6 *Secretary*
make oath and say that the foregoing Statement and the several Lists hereunto annexed marked *A, B, C, D, E, F, G, H, I, J, K, L, M, N, O*(2), *and P* are, to the best of my knowledge and belief, a full, true, and complete statement of the affairs of the above-named Company, on the *first* day of *April,* 19...., the date of the Winding-up Order.

Sworn at 1055 *Pump Court, Temple, E.C.*5,
in the county of *London,*
this *fifteenth* day of *April,* 19....,
Before me
....*Tobias Fogg,*..................
A Commissioner for Oaths.

Signature *Samuel Sly*

The Commissioner is particularly requested, before swearing the Affidavit, to ascertain that the full name, address, and description of the Deponent are stated, and to initial all crossings-out or other alterations on the printed form. A deficiency in the Affidavit in any of the above respects will entail its refusal by the Court. and will necessitate its being re-sworn.

No. C. 26.

Statement of Affairs.
List "A."

LIST "A." **Unsecured Creditors**

The Names to be arranged in alphabetical order and numbered consecutively
Creditors for £10 and upwards being placed first

NOTES.—1. When there is a contra account against the Creditor, less than the amount of his claim against the Company, the amount of the Creditor's claim and the amount of the contra account should be shown in the third Column, and the Balance only be inserted under the heading "Amount of Debt," thus:—

	£ s. d.
Total Amount of Claim	
Less: Contra Account	

No such set-off should be included in List "I."

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

3. The names of any Creditors who are also Contributories, or alleged to be Contributories, of the Company must be shown separately, and described as such at the end of the List.

No.	Name.	Address and Occupation.	Amount of Debt. £	s.	d.	Date when Contracted. Month.	Year.	Consideration.
1	*Brown & Thompson*	1 *Hightown Road, Littlewell*	129	10	0	*March*	19..	*Printing and Stationery*
2	*Billiter & Co., F. C.*	10 *Howell Street Brigtown*	15	10	9	*January*	19..	*Machinery Repairs*
3	*Cowell, George*	*Batley, Yorks*	1,500	0	0	*February*	19..	*Metals*
	etc.	*etc.*	*et*	*c.*		*etc.*		*etc.*
			£ 26,640	0	0			

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 26.

Statement of Affairs.

LIST " B." **Creditors fully secured (not including Debenture Holders)**

The names to be arranged in alphabetical order and numbered consecutively

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when Contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated Value of Security.			Estimated Surplus from Security.		
			£	s.	d.	Month.	Year.				£	s.	d.	£	s.	d.
1	*Floyd & Barrs Banking Co.*	*Blanktown*	2,100	0	0	*Oct.*	19..	*Overdraft*	*All Freehold Property*	*Oct.* 19..	10,000	0	0	7,900	0	0

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 26.

Statement of Affairs.

List " C."

LIST " C." **Creditors partly secured**

The names must be arranged in alphabetical order and numbered consecutively (State whether also Contributories of the Company.)

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when Contracted.		Consideration.	Particulars of Security.	Month and Year when given.	Estimated Value of Security.			Balance of Debt Unsecured.		
						Month.	Year.									
			£	s.	d.						£	s.	d.	£	s.	d.
		Nil														

Signature *Samuel Sly,*

Dated 15 *April*, 19..

No. C. 33.

Statement of Affairs.
List "D."

"LIST D." Liabilities of Company on Bills discounted other than their own Acceptances for Value

The names to be arranged in alphabetical order and numbered consecutively

No.	Acceptor's Name, Address, and Occupation.	Whether liable as Drawer or Endorser.	Date when due.	Amount.			Holder's Name, Address, and Occupation (if known).	Amount expected to rank for Dividend.		
				£	s.	d.		£	s.	d.
	Nil									

Signature *Samuel Sly,*

Dated 15 *April*, 19..

No. C. 26.

Statement of Affairs.
List " E."

LIST " E." **Other Liabilities**

Full particulars of all Liabilities not otherwise Scheduled to be given here
The names to be arranged in alphabetical order and numbered consecutively

No.	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim.			Date when Liability incurred.		Nature of Liability.	Consideration.	Amount expected to rank against Assets for Dividend.		
						Month.	Year.					
			£	s.	d.					£	s.	d.
		Nil										

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 26.

Statement of Affairs.
List "F."

LIST "F." Preferential Creditors for Rates, Taxes, Salaries, and Wages

The names to be arranged in alphabetical order and numbered consecutively

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim. £	s.	d.	Amount payable in full. £	s.	d.	Difference ranking for Dividend. £	s.	d.
1	*Henry Slack*	1 *Berry Villas, Blanktown*	*Manager's salary*	3 *months*	31 *Dec.*19..	80	0	0	80	0	0			
2	*Samuel Sly*	199 *Coleby Road, do.*	*Secretary's salary*	*do.*	*do.*	80	0	0	80	0	0			
3	*Blanktown Corporation*	*Guildhall, Blanktown*	*Rates*	6 *do.*	*do.*	40	0	0	40	0	0			
						£200	0	0	200	0	0			

Signature *Samuel Sly*,

Dated 15 *April* 19..

No. C. 26.

Statement of Affairs.
List "G."

LIST "G." **List of Debenture Holders**

The names to be arranged in alphabetical order and numbered consecutively

Separate Lists must be furnished of holders of each issue of Debentures, should more than one issue have been made

No.	Name of Holder.	Address.	Amount. £	s.	d.	Description of Assets over which Security extends.
1	*Baker, Louisa G., Mrs.*	*1 Bakewell Terrace, Oakley*	500	0	0	*All except Freehold Property*
2	*Cammell, George H.*	*9 Porchester Terrace, Putwell*	100	0	0	*do.*
	etc.	*etc.*		*etc.*		
			£ 5,000	0	0	

Signature *Samuel Sly,*

Dated 15 *April*, 19..

No. C. 26.

Statement of Affairs.
List "H."

LIST "H." **Property.**

Full particulars of every description of property not included in any other lists are to be set forth in this list

		Full Statement and Nature of Property.	Estimated Cost.			Estimated to Produce.		
			£	*s.*	*d.*	£	*s.*	*d.*
	(*a*)	Cash at Bankers						
	(*b*)	Cash in hand	14	0	0	14	0	0
	(*c*)	Stock-in-trade, at *Factory and Warehouse*	9,800	0	0	3,850	0	0
		Cars, etc.	3,060	0	0	800	0	0
	(*d*)	Machinery, at *Factory*	16,850	0	0	5,500	0	0
	(*e*)	Trade Fixtures, Fittings, Office Furniture, Utensils, &c... ..						
(State particulars.)	(*f*)	Investments in Stocks or Shares, &c. 1,500 £1 *Ordinary Shares in "The British Patents Development Co., Ltd."*	1,500	0	0	400	0	0
(State particulars.)	(*g*)	Loans or which Mortgage or other security held						
	(*h*)	Other Property, viz.—						
		Freehold Property	14,500	0	0	10,000	0	0
		Trade Marks, Designs, and Patents	44,000	0	0	3,000	0	0

Signature *Samuel Sly,*

Dated 15*th April*, 19..

No. C. 26.

Statement of Affairs.
List " I."

LIST " I." Debts due to the Company

The names to be arranged in alphabetical order, and numbered consecutively.

NOTE.—If any Debtor to the Company is also a Creditor, but for a less amount than his indebtedness, the gross amount due to the Company and the amount of the Contra account should be shown on the third column, and the balance only be inserted under the heading " Amount of Debt," thus— £ s. d.

Due to Company .. ..
Less: Contra Account .. ..

No such claim should be included in Sheet " A."

No.	Name.	Residence and Occupation.	Amount of Debt. Good. £	s.	d.	Doubtful. £	s.	d.	Bad. £	s.	d.	Folio of Ledger or other book where particulars to be found.	When Contracted. Month.	Year.	Estimated to produce. £	s.	d.	Particulars of any Securities held for Debt.
1	*Anderson, Son & Co.*	1 *Cheapway, Bucktown*	135	0	0							*A/151*	*Oct.*	19..	135	0	0	
2	*Andrews, G. H.*	35 *Hightown Road, Blackton*	17	0	0										17	0	0	
3	*Anderson, B., & Co.*	159 *Temple Chambers, E.C.5*				15	0	0							8	0	0	
4	*Angell, Morris & Son*	159B *Hounds Dyke, E.C.6*	*et*	*c.*		*et*	*c.*		58	0	0				0	0	0	
	etc.	*etc.*							*et*	*c.*								
		£	6,500	0	0	1,000	0	0	1,780	0	0			£	7,000	0	0	

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 33.

Statement of Affairs.
List " J."

LIST " J." Bills of Exchange, Promissory Notes, &c., on hand available as Assets

The names to be arranged in alphabetical order and numbered consecutively

No.	Name of Acceptor of Bill or Note.	Address, &c.	Amount of Bill or Note.			Date when Due.	Estimated to Produce.			Particulars of any Property held as Security for Payment of Bill or Note.
			£	s.	d.		£	s.	d.	
		Nil								

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 33.

Statement of Affairs.
List " K."

LIST " K." **Unpaid Calls**

The names to be arranged in alphabetical order and numbered consecutively

Consecutive No.	No. in Share Register.	Name of Shareholder.	Address and Occupation.	No. of Shares held.	Amount of Call per Share unpaid.			Total Amount due.			Estimated to realise.		
					£	s.	d.	£	s.	d.	£	s.	d.
1	79	*Carmichael, Ichabod H.*	1 *Capel Cottage, Broadmorton Street, E.C.1*	60	0	10	0	30	0	0	0	0	0
2	98	*Slipaway, Dodman G.*	1 *Throgneedle Avenue, E.C.1*	20	0	10	0	10	0	0	10	0	0
								£40	0	0			

Signature *Samuel Sly,*

Dated 15 *April*, 19..

No. C. 33.

Statement of Affairs.
List " L."

LIST " L." **List of Founders' Shares.**

The names to be arranged in alphabetical order and numbered consecutively.

Consecutive No.	Register No.	Name of Shareholder.	Address.	Nominal Amount of Share.	No. of Shares held.	Amount per Share called up.			Total Amount called up.		
						£	*s.*	*d.*	£	*s.*	*d.*
			Nil								

Signature *Samuel Sly,*

Dated 15 *April,* 19..

No. C. 33.

Statement of Affairs.
List "M."

LIST "M." **List of Ordinary Shares**

The names to be arranged in alphabetical order and numbered consecutively

Consecutive No.	Register No.	Name of Shareholder.	Address.	Nominal Amount of Share.	No. of Shares held.	Amount per Share called up. £	s.	d.	Total Amount called up. £	s.	d.
1	1	*Abel, Maurice H.*	*Penryn House, Gwydyr, Glam.*	*£1*	1,000	1	0	0	1,000	0	0
2	2	*Andrews, Henry H.*	1 *Hightown Terrace, Slopton*	*do*	10	1	0	0	10	0	0
3	3	*Anderson, Augustus G.*	5 *Baron's Court Road, Mile End, E.*1	*do.*	25	1	0	0	25	0	0
		etc.	*etc.*	*etc.*		*etc.*			*etc.*		
								£	50,000	0	0

Signature *Samuel Sly,*

Dated 15 *April,* 19..

Statement of Affairs.
List " N."

LIST " N." **List of Preference Shares**

The names to be arranged in alphabetical order and numbered consecutively

Consecutive No.	Register No.	Name of Shareholder.	Address.	Nominal Amount of Share.	No. of Shares held.	Amount per Share called up. £	s.	d.	Total Amount called up. £	s.	d.
1	1	*Augustin, Clarice*	1 *Berryton Mansions, Westsea, W.1*	£1	500	1	0	0	500	0	0
2	2	*Allerton, Maude O.*	59 *Queen's Square Gardens, N.*	*do.*	10	1	0	0	10	0	0
3	3	*Ammerton, Henry*	4968 *Broadway, Chicago, U.S.A.*	*do.*	1,000	1	0	0	1,000	0	0
		etc.	*etc.*			*etc.*			*etc.*		
								£	50,000	0	0

Signature *Samuel Sly,*

Dated 15 *April*, 19..

No. C. 26.

Statement of affairs.
List "O" (2).

LIST "O" (2).

(2) Deficiency Account where Winding-up Order made **MORE**

	£	s.	d.
I. Excess of Assets over Capital and Liabilities on the (1) 31*st* day of *December*, 19, (if any) as per Company's Balance-sheet. (This and any previous Balance-sheets to be annexed or handed to O.R.)			
II. Gross profit (if any) arising from carrying on business from the (1) 1*st* day of *January*, 19.., to date of Winding-up Order as per Trading Account annexed	22,891	0	0
III. Receipts (if any) during same period from undermentioned sources—			
Interest on Loans			
Interest on Deposits			
Transfer Fees	15	0	0
Amounts paid on Shares issued and subsequently forfeited (as per List annexed)			
IV. Other receipts (if any) during same period not included under any of the above headings..			
V. Deficiency as per Statement of Affairs (Part II)	103,336	0	0
Total Amount to be accounted for .. .. .. (3) £	126,242	0	0

NOTES.—(1) Three years before date of Winding-up Order.
(2) Where particulars are numerous, they should be inserted in a separate Schedule.
(3) These figures should agree.

Deficiency Account

THAN THREE YEARS AFTER formation of Company

	Amount Discharged.			Due at date of Winding-up Order.			£	s.	d.
I. Excess of Capital and Liabilities over Assets on the (1) *31st* day of *December*, 19.., (if any) as per Company's Balance-sheet. (This and any previous Balance-sheets to be annexed or handed to O.R.)							14,569	0	0
II. Expenses of carrying on business from the (1) *1st* day of *January*, 19.., to date of Winding-up Order, viz.—									
General Expenditure—									
Salaries	10,090	0	0	160	0	0	10,250	0	0
Wages not charged in Trading A/c									
Rent	2,604	0	0				2,604	0	0
Rates and Taxes ..	1,353	0	0	40	0	0	1,393	0	0
Law Costs							2,085	0	0
Commission	5,630	0	0				5,630	0	0
Interest on Loans ..	1,400	0	0				1,400	0	0
Interest on Debentures	640	0	0				640	0	0
Miscellaneous Expenditure .. .. .. (as per details annexed)							11,723	0	0
III. Directors' Fees from the (1) *1st* day of *January*, 19.., to date of Winding-up Order	800	0	0	400	0	0	1,200	0	0
IV. Dividends declared during same period		*nil*			*nil*				
V. Losses and Depreciation from the *1st* day of *January*, 19.., (1) written off in Company's books, viz. (2)—									
Bad Debts							2,543	0	0
Losses on Investments									
Depreciation of Property							3,765	0	0
Preliminary Expenses									
VI. Losses and Depreciation not written off in Company's books, now written off by Directors (2)									
Bad Debts							2,280	0	0
Losses on Investments							1,100	0	0
Depreciation of Property							65,060	0	0
Preliminary Expenses									
VII. Other Losses and Expenses (2)									
Total Amount accounted for .. ..(3) £							126,242	0	0

Signature *Samuel Sly*,

Dated 15 *April*, 19..

No. C. 26.

Statement of Affairs.
List "P."

LIST "P"

IN SUBSTITUTION FOR SUCH OF THE LISTS NAMED "A" TO "O" AS WILL HAVE TO BE RETURNED BLANK

LIST.	PARTICULARS, AS PER FRONT SHEET.	REMARKS. *Where no particulars are entered on any one or more of the Lists named "A" to "O," the word "Nil" should be inserted in this column opposite the particular List or Lists thus left blank.*
A	Unsecured Creditors	£400 *due as Directors' Fees included*
B	Creditors fully secured (not including debenture holders)	
C	Creditors partly secured	*Nil*
D	Liabilities on Bills discounted other than the Company's own acceptances for value	*Nil*
E	Other Liabilities	*Nil*
F	Preferential Creditors for Rates, Taxes, Wages, etc.	
G	Loans on Debenture Bonds	
H	Property	
I	Book Debts	
J	Bills of Exchange or other similar securities on hand	*Nil*
K	Unpaid Calls	
L	Founders' Shares	*Nil*
M	Ordinary Shares	
N	Preference Shares	
O	Deficiency Account	

Signature *Samuel Sly,*

Dated 15 *April*, 19..

OMPANY' CASH BOOK. RECEIPTS. PAYMENTS.

	RECEIPTS.								PAYMENTS.		
	PARTICULARS.	Total.	Drawn from Bank.	Debts Collected.	Property Realised.	Receipts from Securities held by Creditors.	Calls.	Other Receipts.	Date.	PARTICULARS.	Voucher Nos. (in red).
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.			

PAYMENTS.

		COSTS OF REALISATION.												
Total.	Paid into Bank.	Board of Trade and Court Fees.	Law Costs of Petition.	Law Costs after Winding-up Order.	Remuneration of Manager and Liquidator.	Official Receiver's Commission on Assets Realised, and Amount Distributed in Dividend or Paid to Contributories.	Charges of Auctioneer, Accountant, Shorthand Writer, etc., as taxed.	Notices in *Gazette* and Local Paper.	Incidental Expenses, including possession.	Preferential Creditors and Rent.	Payments to Redeem Securities.	Dividends Paid.	Payments to Contributories.	Other Payments.
s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

LIQUIDATOR'S TRADING ACCOUNT UNDER SECTION 20

The Liquidator of the above-named company in account with the estate.

Dr.	Receipts.	£ s. d.	Payments.	£ s. d. *Cr.*

Liquidator.

We have examined this account with the vouchers and find the same correct, and we are of opinion the expenditure has been proper.

Dated this day of 19..

Committee of Inspection
(or Member of the Committee of Inspection).

IN THE HIGH COURT OF JUSTICE.

In the Matter of THE COMPANIES (CONSOLIDATION) ACT, 1908,

AND

In the Matter of

SUMMARY OF LIQUIDATOR'S ACCOUNTS,

From to

Issued by the Board of Trade under the provisions of Sec. 155 *of the Companies* (*Consolidation*) *Act,* 1908.

DR. CR.

	Receipts. £	s.	d.
To Balance			
,, Receipts, viz.—			
(*a*) Cash at Bankers ..			
(*b*) ,, in hand			
(*c*) Stock-in-trade ..			
(*d*) Machinery, etc. ..			
(*e*) Trade Fixtures, etc. ..			
(*f*) Investments in Shares, etc.			
(*g*) Loans on Mortgage ..			
(*h*) Other property, viz.			
,, Book debts—good			
,, ,, doubtful and bad			
,, Bills of Exchange			
,, Surplus from Securities ..			
,, Receipts per Trading Accounts			
,, Calls due at date of Winding-up order			
,, Calls made by Liquidator ..			

Less—	£	s.	d.
Payments to Execution and other Secured Creditors			
Do. per Trading Account ..			

	Payments. £	s.	d.
By Balance			
,, Board of Trade and Court Fees			
,, Law Costs of Petition, including costs of any person appearing in the petition whose costs are allowed			
,, Costs of Solicitor to Liquidator			
,, Other Law Costs			
,, Special Manager's charges ..			
,, Allowance for Preparing Statement of Affairs ..			
,, Fees of Official Receiver as Provisional Liquidator ..			
,, Charges of Provisional Liquidator, other than Official Receiver			
,, Remuneration of Liquidator on A/c			
,, Auctioneer's and Valuer's charges			
,, Shorthand Writer's charges			
,, Other charges			
,, Costs of Possession			
,, Do. of Notices in *Gazette* and Local papers			
,, Incidental outlay			
Total costs and charges			

	£	s.	d.
Debenture Holders ..			
Preferential Creditors			
Unsecured Creditors divd. of in the £ on			
Return to Contributories at the rate of per Share			

	£	s.	d.
Balance			
£			

Creditors and Contributories can obtain any further information on application to the Liquidator.

....

....

.... 19..

Liquidator.

APPENDIX

INCOME TAX

The statutory right to deduct income tax from dividends is conferred by Rule 20 of the General Rules applicable to all Schedules of the Income Tax Act, 1918. This rule reads as follows—

> " The profits or gains to be charged on any body of persons shall be computed in accordance with the provisions of this Act on the full amount of the same before any dividend thereof is made in respect of any such share, right or title thereto, and the body of persons paying such dividend shall be entitled to deduct tax appropriate thereto."

Copies of Inland Revenue circulars relating to their regulations for deduction of tax and the relief in respect of Dominion Income Tax are appended. The Government fiscal year runs from 6th April to 5th April of the following year.

The following table shows the standard rate of British Income Tax per £ sterling levied since the year 1891—

	s.	d.		s.	d.		s.	d.
1891–1893		6	1904		11	1917	[1]5	–
1894		7	1905–1909	1	–	1918	5	–
1895–1900		8	1910–1914	1	2	1919–1922	6	–
1901	1	–	1915	[1]1	8	1923	5	–
1902	1	2	1916	[1]3	–	1924	4	6
1903	1	3				1925	4	0

[1] An addition was made after the financial year had begun.

INCOME TAX—FOREIGN & COLONIAL DIVIDENDS

ESTABLISHMENT OF THE IRISH FREE STATE

The arrangement under which the basis and amount of liability to Income Tax remained unaffected by the establishment of the Irish Free State does not apply for the year 1923–24, beginning 6th April, 1923.

For the year 1923–24 the Irish Free State will levy, as a separate Dominion, its own Income Tax separate and distinct from the British Income Tax (i.e. the Income Tax of Great Britain and Northern Ireland). The expression " United Kingdom " in the Income Tax Acts will now mean Great Britain and Northern Ireland, and the Irish Free State will fall to be treated for the purposes of British Income Tax in the same way as the other Dominions.

The provisions of the Income Tax Acts which previously governed the charging of United Kingdom Income Tax on income from sources outside the United Kingdom will now, in relation to British Income Tax, apply to income from sources outside Great Britain and Northern Ireland, and the provisions and procedure as to the granting of exemption from United Kingdom Income Tax in respect of such income to persons not resident in the United Kingdom will now apply in the case of persons not resident in Great Britain and Northern Ireland. For instance, a Paying Agent in Great Britain or Northern Ireland who is entrusted with the payment of dividends on shares of an Irish Free State Company will be required to deduct and account for British Income Tax in respect of dividends paid on or after the 6th April, 1923, to persons resident in Great Britain and Northern Ireland, and a Banker or Coupon Dealer in Great Britain or Northern Ireland who obtains payment outside Great Britain and Northern Ireland of dividends

on shares of an Irish Free State Company will be required to deduct and account for British Income Tax in respect of the dividends unless a declaration is furnished (in accordance with the normal procedure with regard to declarations on Form A, etc.) showing that the owner of the shares is not resident in Great Britain and Northern Ireland.

In view of the fact that the basis of taxation as regards Income Tax for years prior to 1923–24 remained unaffected by the establishment of the Irish Free State, liability to deduction of British Income Tax will not normally attach to interest or dividends derived from sources within the Irish Free State in so far as such interest or dividends were payable in respect of periods prior to the 6th April, 1923. In the case, therefore, of a dividend paid in respect of a period beginning before and ending after the 5th April, 1923, or a payment of interest accruing in part up to and in part after the 5th April, 1923, the dividend or interest should be apportioned between the periods up to and after the 5th April, 1923 (in proportion to the length of those periods), and Bankers, Paying Agents, Coupon Dealers and other persons who are required to deduct British Income Tax should deduct British Income Tax only from the proportion of the payment corresponding to the period after the 5th April, 1923.

Any deduction of Income Tax made by an Irish Free State Company or other person in the Irish Free State paying any such interest or dividend should, so far as it applies to the proportion of the payment corresponding to the period after the 5th April, 1923, be regarded as Irish Free State Income Tax, and British Income Tax in addition will fall to be deducted from such proportion of the payment.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
17th April, 1923.

MEMORANDUM AS TO THE DEDUCTION OF INCOME TAX FOR THE YEAR 1925–26

BY a Resolution of the House of Commons passed in Committee of Ways and Means on the 28th April, 1925, and having statutory effect under the provisions of the Provisional Collection of Taxes Act, 1913, British Income Tax (i.e. the Income Tax of Great Britain and Northern Ireland) for the year commencing 6th April, 1925, is to be charged at the rate of FOUR SHILLINGS in the pound.

Income Tax is accordingly deductible at the rate of FOUR SHILLINGS in the pound in respect of—

Payments—CLASS I.

(*a*) Dividends and interest from the Public Funds where payable under deduction of tax;

(*b*) Dividends and interest of Foreign or Colonial Government Securities, or of Foreign or Colonial Companies *entrusted to an agent in Great Britain or Northern Ireland for payment in Great Britain or Northern Ireland on or after the 6th April*, 1925, also the like dividends or interest which, although not entrusted to such an agent for payment, are *realised on or after that date through Bankers, Coupon Dealers, or other persons in Great Britain or Northern Ireland;*

(*c*) Interest and annuities paid by Municipal Corporations or other Local Authorities to creditors on rates, and not paid, or not wholly paid, out of profits or gains brought into charge to Income Tax; and

(*d*) Other interest and annuities not paid, or not wholly paid, out of profits or gains brought into charge to Income Tax.

Bankers and agents who have made payments between the 6th April, 1925, and the 29th April, 1925, and who have deducted tax at a rate in excess of 4s. in the pound are referred to the arrangement for adjustment dealt with in the Circular Letter from this Office dated the 29th April, 1925.

But in respect of—

Payments—CLASS II.[1]

(*a*) Ground rents, etc., secured on property charged with Income Tax ; and

(*b*) Interest or annuities wholly payable out of property, profits or gains charged with Income Tax ;

(*c*) Interest and annuities payable by Municipal Corporations or other Local Authorities to creditors on rates, and paid wholly out of profits or gains brought into charge to Income Tax,

Income Tax is deductible at the rate or rates in force during the period in which the payment has been accruing, i.e. in respect of any portion which accrued in the year ended 5th April, 1925, at the rate of FOUR SHILLINGS AND SIXPENCE in the pound, and in respect of any portion accruing subsequent to that date at the rate FOUR SHILLINGS in the pound.

(*d*) Dividends paid out of the profits or gains of Public Companies in Great Britain or Northern Ireland,

Income Tax is deductible at the rate or rates in force during the period in which the profits were earned out of which the dividends are paid.

The adjustment of deductions from payments falling within *CLASS II* is primarily a matter to be settled between the payer and the recipient and does not immediately concern the Revenue.

C. GORDON SPRY,
Secretary.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
29th April, 1925.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
29th April, 1925.

SIR,

The Board of Inland Revenue desire to draw the attention of Bankers, Agents entrusted with the payment of Foreign and Colonial Dividends, Secretaries of Public Companies, and others, to the following arrangements for facilitating such adjustments as may be necessary in consequence of the reduction in the rate of Income Tax for the current year from 4s. 6d. to 4s. in the pound.

The general position is that by a Resolution of the House of Commons, passed in Committee of Ways and Means on 29th April, 1925, and having statutory effect under the Provisional Collection of Taxes Act, 1913, British Income Tax (i.e. the Income Tax of Great Britain and Northern Ireland) for the year commencing 6th April, 1923, is to be charged at the rate of 4s. in the pound. During the period from the 6th April, 1925, to the date of the Resolution, however, deduction of Income Tax at the rate in

[1] NOTE.—In the case of lands and heritages in Scotland it is specially enacted by provisos to Rules 1 and 4 of Number VIII, Schedule A, Income Tax Act, 1918, that deductions in respect of Income Tax under Schedule A made from any rent, interest or payment due for the period ending 15th May shall be made at the rate of the tax in force at the commencement of that period, and the above observations in regard to such payments falling within Class II are therefore not applicable.

force for the preceding year, ending 5th April, 1925, viz., 4s. 6d. in the pound, was a legal deduction, and in cases where payments of dividends, etc., have been made during that period and Income Tax has been deducted at a rate in excess of the rate at which tax could properly have been deducted under the new conditions, the excess tax deducted will, in pursuance of Section 2 (1) of the Provisional Collection of Taxes Act, 1913, require to be repaid, or made good to the persons from whom the deduction has been made.

The cases in which such deductions may have been made fall into two main classes and the arrangements for the requisite adjustments have to be separately considered for each class.

CLASS I. Tax deducted directly on behalf of the Revenue from payments which are not made out of profits or gains brought into charge to Income Tax.

Under this head fall deductions from—

(*a*) Dividends and interest from the Public Funds where payable under deduction of tax.

(*b*) Dividends and interest of Foreign or Colonial Government Securities, or of Foreign or Colonial Companies, entrusted to an Agent in Great Britain or Northern Ireland for payment in Great Britain or Northern Ireland, also the like dividends or interest which, although not entrusted to such an Agent for payment, are realized through Bankers, Coupon Dealers, or other persons in Great Britain or Northern Ireland.

(*c*) Interest and annuities paid by Municipal Corporations or other Local Authorities to creditors on rates, and not paid or not wholly paid out of profits or gains brought into charge to Income Tax. (Where the Income Tax is not paid over periodically as deducted, but is collected by the Revenue under an annual assessment, notwithstanding that a Bank may be acting as Agent for payment on behalf of the Local Authority, the adjustment is primarily a matter to be settled between the payer and the recipient and does not immediately concern the Revenue. The procedure indicated under *Class II* below will, therefore, apply in this type of case.)

(*d*) Other interest and annuities not paid, or not wholly paid, out of profits or gains brought into charge to Income Tax.

In cases falling within *Class I*, on payment to the Revenue of the full amount of Income Tax deducted by a Banker, Paying Agent or other duly authorised person at the rate of 4s. 6d. in the pound, the Board of Inland Revenue will be prepared, on application by the recipients of dividends and interest, either to arrange for the excess tax to be allowed by adjustment against a subsequent assessment upon the recipient, or to include the excess tax in the next refund of tax made to the recipient, or to make a separate repayment of the excess tax.

It will be of assistance if Bankers and Agents will advise any persons who may apply to them for repayment of the excess tax to make application to H.M. Inspector of Taxes for the District in which they carry on their business or employment, or, if they have no business or employment, the District in which they reside,[1] for a form on which to make their claim.

Applicants for repayment will be required to furnish evidence that they have suffered deduction of the amounts sought to be repaid. In cases in which Bankers or Paying Agents issue, with dividend warrants, counterfoils showing the name of the stockholder or shareholder, the gross amount of the dividend, and the Income Tax deducted therefrom on payment, no further evidence will normally be required in support of a claim for repayment.

In other cases, the *original* Certificate on Form R. 189 by the Paying Agent or on Form R. 189A by the applicant's Bankers, or the Banker's credit slip or other similar document issued in lieu of one of these forms certifying the deduction of tax should be produced. The issue of duplicate vouchers

[1] In the case of residents abroad, the application should be addressed to the Chief Inspector of Taxes (Claims), Cecil Chambers, 86 Strand, London, W.C.2.

should be avoided wherever possible, and, if necessary in any case, they should be clearly marked "Duplicate."

CLASS II.[1] *Tax deducted from payments made out of profits or gains brought into charge to Income Tax.*

Under this head fall deductions from—

(*a*) Ground rents, etc., secured on property charged with Income Tax.

(*b*) Interest or annuities wholly payable out of property, profits or gains charged with Income Tax.

(*c*) Interest and annuities payable by Municipal Corporations or other Local Authorities to creditors on rates, paid wholly out of profits or gains brought into charge to Income Tax.

(*d*) Dividends paid out of the profits or gains of Public Companies in Great Britain or Northern Ireland.

In this Class no question of repayment by the Inland Revenue Department can arise. Income Tax at the proper rate only will in due course be paid in respect of the property, profits or gains out of which the interest or dividends are paid, and consequently the Revenue will not receive more than its due.

Where, however,

(i) in cases falling within (*a*), (*b*) or (*c*) above, payments of ground rent, interest, etc., have been made since 5th April, 1925, and tax has been deducted at the rate of 4s. 6d. in the pound in respect of any portion of such ground rent, interest, etc., accruing since that date ;

or (ii) in cases falling within (*d*) above, payments of dividends have been made since 5th April, 1925, and tax has been deducted at the rate of 5s. in the pound in respect of any portion of such dividends payable out of profits earned subsequent to that date,

the person making the payment will be liable to repay or make good to the payee the amount of any excessive deduction of tax.

The Board offer the following suggestions with the view of assisting the persons concerned in making adjustments in these cases.

The amount of tax deducted on payment of dividends, interest, or other annual payments falling within the above Class is usually shown on a counterfoil or other document issued to the payee when payment is made. Accordingly the payer who has made a deduction in respect of taxes can with comparative ease make any necessary adjustment on the next payment, and at the same time show on the counterfoil or other document that such adjustment has been made. This would probably meet with general acceptance, but if any individual requests an immediate adjustment (e.g. in cases where shares or other property change hands before the next dividend or interest becomes payable), this can no doubt be complied with.

In the case of dividends paid "free of tax" no adjustment will of course be necessary.

Finally, the Board would point out the desirability of Secretaries of Companies and others taking any opportunity which may arise of informing their shareholders of the manner in which it is proposed to make the adjustments referred to herein. If further information such as the Board may be in a position to furnish is desired in particular cases, application should be made to this Office.

I am, Sir,
Your obedient Servant,
C. GORDON SPRY,
Secretary.

[1] NOTE.—In the case of lands and heritages in Scotland it is specially enacted by provisos to Rules 1 and 4 of No. VIII, Schedule A, Income Tax Act, 1918, that deductions in respect of Income Tax under Schedule A made from any rent, interest or payment due for the period ending 15th May, shall be made at the rate of the tax in force at the commencement of that period, and no adjustment will therefore be necessary in such cases.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
January, 1924.

BRITISH INCOME TAX

GENTLEMEN,

1. I am directed by the Board of Inland Revenue to inform you that from inquiries which they have received, there appears to be a widespread impression that persons who do not retain a residence in this country and who reside here for less than six months of the Income Tax year are consequently not liable to Income Tax for that year in respect of their income from Foreign and Colonial Stocks, etc., and from British Government Securities issued with the condition as to exemption from taxation mentioned in Section 46 (1) of the Income Tax Act, 1918.

2. As this view leads to considerable misapprehension as to the position, in relation to Income Tax, of persons who spend part of the year in this country, and part of the year abroad, the Board have prepared a Memorandum, a copy of which is enclosed,[1] which it is hoped will assist taxpayers and others to appreciate what, in the Board's view, is the real position.

3. The exemption from taxation mentioned in Section 46 (1) of the Income Tax Act, 1918, may be claimed when the beneficial owner of those British Government Securities to which the section applies is *not ordinarily resident* in this country. The title to relief from the tax on income from Foreign and Colonial Stocks, etc., is dependent on the claimant being *not resident* in this country.

4. Where the claimant of either of these reliefs is a British subject who has been ordinarily resident in this country, there are two considerations which must be emphasized—

(i) A person habitually spending a portion of the year in two countries may be resident and ordinarily resident in each country.

(ii) No. 3 of the General Rules of the Income Tax Act, 1918, charges, as a person residing in this country, any British subject whose ordinary residence has been in this country and who has left this country for the purpose only of occasional residence abroad.

5. It is the British subject, leaving this country after a period of ordinary residence here, whose case is most often productive of misunderstanding, and it is to this class of case that the Memorandum is especially directed. It is suggested, therefore, that the attention of bankers and their customers, when making declarations for the purpose of obtaining the exemptions referred to in the Memorandum, may usefully be drawn to the following classification of the type of case under consideration, and to the Board's practice in the matter.

Where the owner of the Stocks, etc., being a British subject whose ordinary residence has been in Great Britain or Northern Ireland—

(i) goes abroad for a *definite lengthy period* in circumstances that preclude his visiting this country except on holiday, he is entitled to claim to be regarded as *not resident* (subject to the qualification mentioned in paragraph 6) and *not ordinarily resident* in Great

[1] See page 396.

Britain or Northern Ireland from the date of departure. As instances of such cases, there may be mentioned an Army Officer going abroad on a normal tour of foreign service, or a civilian going abroad on a business contract requiring his residence abroad for not less than three years.

(ii) goes abroad for an *indefinite period*, he is not usually in a position at the outset to prove that his case does not fall within No. 3 of the General Rules. The claim in such cases can, therefore, only be allowed by way of *repayment* (subject to the qualification mentioned in paragraph 6) and then only either after an absence from this country or in the light of further facts, sufficient to show that the circumstances of living abroad are similar to those in the preceding paragraph. Meanwhile, claims in respect of the personal allowances and reliefs due to a person residing in Great Britain or Northern Ireland would be provisionally admitted.

(iii) habitually spends part of each year in this country and part abroad, he will still be regarded as resident and ordinarily resident here (notwithstanding the fact that the duration of his stay in this country may be less than six months in any Income Tax year), and as not entitled to the exemptions herein mentioned.[1] Such a claimant is, however, entitled to the personal allowances and reliefs due to a person residing in Great Britain or Northern Ireland.

6. It must be borne in mind that the title to be regarded as not resident is lost for any Income Tax year in which a person visits this country, unless he comes here

(*a*) for some temporary purpose only; and

(*b*) without any intention of establishing a residence, and

(*c*) the total period of his stay here in the year does not amount to six months.

(*See* No. 2 of the Miscellaneous Rules of Schedule D, Income Tax Act, 1918, quoted in the Memorandum.)

7. The Board feel confident that they may rely upon the co-operation of bankers in bringing the position to the notice of persons affected. In this connection it will be appreciated that it is of the first importance to ascertain the full facts as regards the place or places of residence of a customer and the duration of his visits, if any, to this country before a declaration is made on his behalf.

8. Copies of the enclosed Memorandum for the information of the bank's customers, and further copies of this Circular for distribution to the bank's branches, may be obtained by application to the Inspector of Foreign and Colonial Dividends, York House, 23 Kingsway, London, W.C.2, to whom all inquiries on the subject of this Circular should be addressed.

I am, Gentlemen,

Your obedient Servant,

C. GORDON SPRY,

Secretary.

[1] There may be a small number of cases where the circumstances are such that the claimant, normally falling to be treated as within this third class, might be entitled to claim that his visits to the United Kingdom are *an exception to or a break in* his usual mode of life which involves his living at some particular place abroad. Such a claim will require to be made by the taxpayer personally, and the facts on which the request for special consideration is based should be submitted in writing to the Inspector of Foreign and Colonial Dividends, York House, 23 Kingsway, London, W.C.2.

INCOME FROM FOREIGN AND COLONIAL STOCKS, ETC., AND BRITISH GOVERNMENT SECURITIES

Memorandum by the Board of Inland Revenue in regard to Claims to Relief from British Income Tax on the ground that the Owner of the Stocks, etc., is "not resident" or "not ordinarily resident" in Great Britain or Northern Ireland.

Under the Income Tax Act, 1918, Rule 2 (*d*) of the General Rules of Schedule C and Rule 7 of the Miscellaneous Rules of Schedule D, a person *not resident* in Great Britain or Northern Ireland may obtain relief from British Income Tax on the interest, etc., on Foreign and Colonial Stocks, etc.

Under Section 46 (1) of the same Act the beneficial owner of certain British Government Securities[1] may, if *not ordinarily resident* in Great Britain or Northern Ireland, obtain relief from British Income Tax in respect of the interest on the securities.

The Income Tax Act, 1918, contains the following further provision—

> "Every British subject whose ordinary residence has been in the United Kingdom shall be assessed and charged to tax, notwithstanding that at the time the assessment or charge is made he may have left the United Kingdom, if he has so left the United Kingdom for the purpose only of occasional residence abroad, and shall be charged as a person actually residing in the United Kingdom upon the whole amount of his profits or gains, whether they arise from property in the United Kingdom or elsewhere. . . ." (No. 3 of the General Rules applicable to Schedules A, B, C, D, and E, Income Tax Act, 1918.)[2]

In the Board's view the position is that a British subject, whose ordinary residence has been in this country, *notwithstanding that he may reside abroad for more than six months of the Income Tax year*, remains chargeable to British Income Tax for that year as a person resident and ordinarily resident in this country, unless he has gone abroad in such circumstances that he cannot be said to have left this country for the purpose only of occasional residence abroad.

In this connection it has to be remembered that a person may reside, and have an ordinary residence, in more than one country in the same year and that the above-mentioned reliefs from British Income Tax do not depend upon the fact that a person is resident or ordinarily resident abroad, but upon the fact that he is not resident or not ordinarily resident in this country. Accordingly a British subject who has been ordinarily resident in this country and who adopts the habit of spending a part of the Income Tax year abroad and the remainder of the year—although less than six months—in this country is normally regarded as still resident and ordinarily resident in this country.

A Rule of the Income Tax Acts which has given rise to considerable misunderstanding in connection with this class of case is No. 2 of the Miscellaneous Rules of Schedule D, Income Tax Act, 1918, which reads as follows—

> "2. A person shall not be charged to tax under this Schedule as a person residing in the United Kingdom, in respect of profits or gains received in respect of possessions or securities out of the United Kingdom, who is in the United Kingdom for some temporary purpose only, and

[1] The securities in question are—

5% War Loan, 1929–1947.	4% Funding Loan, 1960–1990.
5% Exchequer Bonds, 1920, 1921, and 1922.	4% Victory Bonds.
5% National War Bonds (all series).	5¾% Exchequer Bonds, 1925.

[2] For the purposes of Income Tax for the year 1923-24 and subsequent years, the expression "United Kingdom" in these quotations from the Income Tax Act, 1918, should be read as meaning Great Britain and Northern Ireland, and as not including the Irish Free State.

> not with any view or intent of establishing his residence therein, and who has not actually resided in the United Kingdom at one time or several times for a period equal in the whole to six months in any year of assessment, but if any such person resides in the United Kingdom for the aforesaid period he shall be so chargeable for that year."[1]

The Board do not consider that the case of the British subject dealt with in the foregoing paragraph falls within this Rule, which is primarily concerned with a different type of case, e.g. the case of a foreigner coming to this country on a visit.

C. GORDON SPRY,
Secretary.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
1st November, 1920.

GENTLEMEN,

RELIEF IN RESPECT OF DOMINION INCOME TAX

1. I am directed by the Board of Inland Revenue to invite your attention to Section 27 of the Finance Act, 1920, which for the year beginning 6th April, 1920, supersedes Section 55 of the Income Tax Act, 1918 (Section 43 of the Finance Act, 1916). A copy of Section 27 is enclosed.

2. In the case of dividends or interest payable by a Dominion Company (not assessable to United Kingdom Income Tax in respect of the whole of its profits) and entrusted for payment to an Agent in this country, the Board are prepared to continue the practice under which relief in respect of Dominion Income Tax is allowed to the shareholders, etc., through the Paying Agent by deduction of United Kingdom Income Tax from the dividends or interest at a rate less than the full standard rate (now 6s. in the £).

3. Applications from Paying Agents for authority to deduct United Kingdom Income Tax at a rate adjusted to allow Dominion Income Tax relief should be addressed to the Special Commissioners of Income Tax, York House, 23 Kingsway, London, W.C.2, and will only be entertained subject to the following conditions—

(*a*) A separate application must be made in respect of each dividend, etc., from which it is desired to deduct United Kingdom Income Tax at an adjusted rate.

(*b*) The Paying Agent must take all the steps necessary for the determination of the rate of relief allowable, and must furnish such information as may be required for this purpose, including particulars of—

(i) the nature and amount of the Company's income assessed directly to the Dominion Income Tax (where more than one Dominion Income Tax is charged, separate particulars should be given regarding each tax);

(ii) the deductions allowed therefrom in arriving at the amount actually charged to the Dominion Income Tax;

(iii) the amount actually charged to the Dominion Income Tax;

(iv) the rate or rates of Dominion Income Tax and the amount of tax charged;

(v) the Dominion taxation year for which the tax was charged and the date on which such year ended. (If particulars for the Dominion taxation year ending in the United Kingdom taxation year are not available, the Board will normally be

[1] See footnote 2, page 396.

prepared to consider applications based on particulars for the latest Dominion taxation year for which they can be obtained) ;

(vi) the nature and amount of any income of the Company subjected to Dominion Income Tax before receipt (e.g. dividends received from other Dominion Companies), and the rate of Dominion Income Tax to which such income was subjected before receipt ;

(vii) the nature and amount of any income of the Company exempt from Dominion Income Tax (e.g. income derived from certain Dominion War Loans or from a source outside the Dominion) ;

(viii) any Dominion Income Tax charged in respect of dividends or interest paid by the Company, showing on what part of such dividends or interest the tax has been charged, if not on the whole.

Statements should be submitted reconciling in detail the above particulars with the figures shown in the Company's printed accounts, a copy of which for the year concerned should be forwarded.

Official evidence of payment of the Dominion Income Tax should also be furnished.

The above particulars must be supplied year by year as soon as they are available.

(*c*) United Kingdom Income Tax at the full standard rate (now 6s. in the £) must be deducted from any dividends or interest in respect of which specific authority to deduct at a lower rate has not been obtained.

(*d*) When a claim has been admitted, the relative dividend or interest warrants, etc., issued in respect of registered holdings should indicate clearly the amount of the gross dividend or interest (*see* paragraphs 5 and 6) and the amount of United Kingdom Income Tax deducted, and should contain an explanatory memorandum regarding the amount of the gross dividend or interest as liable to United Kingdom Income Tax and the nature and amount of the relief granted in respect of Dominion Income Tax

In the case of bearer shares or bonds a similar statement is to be incorporated in any notice of payment of dividend or interest issued by the Company or published by them by advertisement or otherwise.

4. The rate of relief in respect of Dominion Income Tax will be computed by reference to the full standard rate of United Kingdom Income Tax (now 6s. in the £). A shareholder whose "appropriate rate" of United Kingdom tax is less than the standard rate may thus receive through the Paying Agent a greater rate of relief in relation to his dividend or interest than is due to him, and in such a case the excessive relief allowed will be recoverable in the manner provided by sub-section (3) of Section 27. On the other hand where the Dominion rate of tax exceeds one-half of the United Kingdom standard rate a shareholder whose "appropriate rate" of United Kingdom tax exceeds the standard rate may make a further claim.

5. Special attention is drawn to sub-section (4) of Section 27 which discontinues the allowance of Dominion Income Tax as a deduction in the computation of liability to United Kingdom Income Tax, and under which in the case of dividends or interest of a Dominion Company distributed to residents in this country an addition for Dominion Income Tax is to be made, for the purposes of the charge to United Kingdom Income Tax, to the net amount of the dividend or interest received in this country. Under proviso (*b*) to the sub-section, where a Dominion does not grant relief from Dominion Income Tax in respect of the payment of United Kingdom Income

Tax, the addition to be made is to be the amount of the relief granted under the Section. For the present, therefore, the addition to the net amount of the dividend or interest received by a Paying Agent in this country, in order to arrive at the gross amount on which United Kingdom Income Tax is chargeable, will be calculated by reference to the rate of relief from United Kingdom Income Tax allowed to shareholders, etc., through the Paying Agent.

The United Kingdom Income Tax to be deducted from the dividend or interest and paid over to the Revenue is therefore the tax computed on the gross amount of the dividend or interest, the gross amount being such an amount as after deduction of tax at the rate of relief allowed gives the net amount of the dividend or interest received by the Paying Agent.

The position may be illustrated by the following example—

	s.	*d.*	
Full standard rate of British Income Tax . . .	6	0	in the £
Less rate of relief in respect of Dominion Income Tax (say)	2	0	,,
Rate of British Income Tax to be deducted . .	4	0	,,
Net dividend received by Paying Agent . . (say)	4	6	per share
Gross dividend = 4s. 6d. + $\frac{2}{18}$ of 4s. 6d. (or $\frac{20}{18}$ of 4s. 6d.) = 5s.			
Tax to be deducted by Paying Agent and paid over to the Revenue—4s. in the £ on the Gross Dividend of 5s. =	1	0	,,
Amount received by shareholder . .	3	6	,,

6. The enclosed specimen forms of counterfoils of dividend warrants, with an endorsed memorandum, have been designed to meet the convenience of Paying Agents and (with such modifications as the circumstances of any particular case may necessitate) will normally be found to satisfy the requirements of paragraph 3 (*d*) above.

The following examples may be useful—

EXAMPLE I

Shareholder holds 1,000 Shares

Dividend declared (say) 4s. 3d. per share free of Dominion taxes

	s.	*d.*	
Full standard rate of British Income Tax . . .	6	0	in the £
Less rate of relief in respect of Dominion Income Tax (say)	3	0	,,
Rate of British Income Tax to be deducted . .	3	0	,,

Gross dividend $\frac{20}{17}$ of 4s. 3d. = 5s. per share, being the amount which after deduction of tax at 3s. in the £ (the rate of relief allowed) gives the net amount declared free of Dominion tax, viz. 4s. 3d. per share.

		s.	*d.*	
Amount of Warrant—£175 (i.e. 3s. 6d. × 1,000).	Amount of dividend declared .	4	3	per share
	Less British Income Tax at 3s. in the £ on the gross amount of the dividend of 5s. . =		9	,,
	Net amount . .	3	6	,,

N.B.—Since the above circular was issued, the words "British Income Tax" are substituted for "United Kingdom Income Tax." See page 389.

EXAMPLE II

Shareholder holds 100 Shares

Dividend declared (say) 5s. per share less a particular Dominion Income Tax at 8d. in the £ (2d. per share) but free of other Dominion taxes, equivalent to a net dividend of 4s. 10d. per share after payment or deduction of Dominion Income Tax.

	s.	d.	
Full standard rate of British Income Tax . . .	6	0	in the £
Less rate of relief in respect of Dominion Income Tax (say)	2	0	,,
Rate of British Income Tax to be deducted . .	4	0	,,

Gross dividend $\frac{20}{18}$ of 4s. 10d. = 5s. 4·44d. per share, being the amount which after deduction of tax at 2s. in the £ (the rate of relief allowed) gives the net amount declared after deduction of the particular Dominion Income Tax (2d. per share), viz. 4s. 10d. per share.

		s.	d.	
Amount of Warrant—£18/15/11 (i.e. 3s. 9·11d. × 100).	Amount of dividend declared .	5	0	per share
	Less the particular Dominion Income Tax at 8d. in the £ .		2	,,
		4	10	,,
	Less British Income Tax at 4s. in the £ on the gross amount of the dividend of 5s. 4·44d. =	1	0·89	,,
	Net amount . .	3	9·11	,,

7. The Income Tax deducted should be accounted for on the periodical returns made by Paying Agents to the Board's Inspector of Foreign and Colonial Dividends, York House, 23 Kingsway, London, W.C.2.

8. This circular supersedes the circulars dated 25th September, 1916, and 10th October, 1917.

I am,

Gentlemen,

Your obedient Servant,

....

Secretary.

N.B.—The above circular was issued when the standard rate of British Income Tax was 6s. in the £, hence the examples given require modification to the actual rate of British Tax in force at date of payment.

Specimen form of counterfoil of dividend warrant where the dividend is declared free of all Dominion Taxes.

DIVIDEND No.........of................per share, free of Dominion Taxes,................ equivalent to a GROSS DIVIDEND of.......................per share, less British Income Tax at the rate of...............per £ of GROSS DIVIDEND on............... shares, registered in your name on..

Amount of Warrant
£...........................

Name of Shareholder

....

Amount of dividend declared....................per share.		
Less British Income Tax at .... in the £ on the Gross amount of the dividend of		,, ,,
Net Amount. . .		,, ,,

We certify that the British Income Tax deducted from this dividend will be paid to the proper Officer for the receipt of Taxes.

....

The Income Tax Commissioners will accept this statement as a certificate of the deduction of British Income Tax at................in the £ from the gross amount of the dividend, viz.........................per share.

MEMORANDUM

The rate of relief in respect of Dominion Income Tax granted by Section 27 of the Finance Act, 1920, must not exceed either the rate of the Dominion Income Tax or half " the appropriate rate " of British tax as defined in that Section.

The British Income Tax is chargeable on the gross amount of income before payment or deduction of such an amount of Dominion Income Tax as is equal to the amount of the relief granted.

In the present instance the rate of relief has been computed by reference to the full standard rate of British Income Tax, viz.................in the £, and the rate of British Income Tax deducted, viz................in the £, is arrived at as follows—

Full standard rate of British Income Tax. . .		in the £
Less rate of relief in respect of Dominion Income Tax.		,,
		,,

[1] The gross amount of the dividend, viz.................per share is the amount which after deduction of tax at...............in the £ (the rate of relief allowed) gives the net amount declared free of Dominion tax, viz.................per share.

The relief from British Income Tax for the year ending 5th April............... allowed by the deduction of British Income Tax at a reduced rate from this dividend has been authorized by the Commissioners of Inland Revenue in respect of—

(*Here describe the Dominion Income Tax or Taxes in respect of which relief is granted.*)

[1] See footnote, page 403.

Specimen form of counterfoil of dividend warrant where the dividend is declared subject to a deduction for Dominion Tax.

*Here describe the particular Dominion Income Tax deducted.

†To be omitted if not applicable.

DIVIDEND No................of................per share less......................
......................*tax at................in the £, *but free of other Dominion Taxes,*† equivalent to a GROSS DIVIDEND of....................per share, less British Income Tax at the rate of ....
per £ of GROSS DIVIDEND‡ on................shares registered in your name on..

Amount of Warrant

£ ....

Name of Shareholder

....

Amount of dividend declared........		per share.
Less............ ....*tax at............ in the £ . .		,, ,,
		,, ,,
Less British Income Tax at .... in the £ on the Gross amount of the dividend of ....=		,, ,,
Net Amount		,, ,,

We certify that the British Income Tax deducted from this dividend will be paid to the proper Officer for the receipt of Taxes.

....

The Income Tax Commissioners will accept this statement as a certificate of the deduction of British Income Tax at................ in the £ from the gross amount of the dividend, viz................. ... per share.

‡ See Memorandum at Back hereof.

MEMORANDUM

"The rate of relief in respect of Dominion Income Tax granted by Section 27 of the Finance Act, 1920, must not exceed either the rate of the Dominion Income Tax or half 'the appropriate rate' of British tax as defined in that Section.

The British Income Tax is chargeable on the gross amount of income before payment or deduction of such an amount of Dominion Income Tax as is equal to the amount of the relief granted.

In the present instance the rate of relief has been computed by reference to the full standard rate of British Income Tax, viz..................in the £, and the rate of British Income Tax deducted, viz.................in the £, is arrived at as follows—

Full standard rate of British Income Tax . .		in the £
Less rate of relief in respect of Dominion Income Tax		,,
		,,

[1] The gross amount of the dividend, viz.................per share is the amount which after deduction of tax at................in the £ (the rate of relief allowed) gives the net amount declared after deduction of............*(............per share), viz.................per share.

The relief from British Income Tax for the year ending 5th April, ... allowed by the deduction of British Income Tax at a reduced rate from this dividend has been authorised by the Commissioners of Inland Revenue in respect of—

(*Here describe the Dominion Income Tax or Taxes in respect of which relief is granted.*)"

An English company would probably condense these Memos. by stating on the dividend counterfoil "I hereby certify that Income Tax at the rate of . . . . . . in the £ on the profits of the Company, of which this dividend forms a part, has been or will be duly paid by me to the proper Officer for the receipt of Taxes in England. The Company's Shareholders are not entitled to make a separate claim in respect of . . . . Income Taxes which has been or may be granted to the Company in this respect. Where the total income of the Shareholder does not exceed £2,000, claims for relief by reduction of the rate of Income Tax will only be allowed on the excess (if any) of the rate deducted from this Warrant in respect of the year to 5th April, 19. ., over the rate chargeable on the Shareholder."

[1] Where a company shows the net amount per share payable, a shareholder by deducting tax at the FULL rate (4s. 6d. in £) from the GROSS amount of the dividend will arrive at the same result as that given by the company. Take Example II, page 400.

	£	s.	d.
100 shares at 5s. 4·44d. per share.	26	17	0
less British tax at 6s. in the £	8	1	1
	£18	15	11

* Describe the particular Dominion Income Tax deducted.

FINANCE ACT, 1920

Section 27

27.—(1) If any person who has paid, by deduction or otherwise, or is liable to pay, United Kingdom income tax for any year of assessment on any part of his income proves to the satisfaction of the Special Commissioners that he has paid Dominion income tax for that year in respect of the same part of his income, he shall be entitled to relief from United Kingdom income tax paid or payable by him on that part of his income at a rate thereon to be determined as follows—

(*a*) if the Dominion rate of tax does not exceed one-half of the appropriate rate of United Kingdom tax, the rate at which relief is to be given shall be the Dominion rate of tax :

(*b*) if any other case the rate at which relief is to be given shall be one-half of the appropriate rate of United Kingdom tax.

For the purpose of this section, the expression "the appropriate rate" of United Kingdom tax means the rate at which the claimant for the year to which the claim relates has borne or is liable to bear United Kingdom income tax, and where the claimant is liable to United Kingdom super-tax the expression "the appropriate rate" of United Kingdom tax means a rate equal to the sum of the rates at which he has borne or is liable to bear United Kingdom income tax and super-tax respectively for that year.

(2) Where a person has not established his claim to relief under this section for any year of assessment before the first day of January in that year, the relief shall be granted by way of repayment of tax.

(3) Where by reason of the allowance of relief under this section the rate of United Kingdom income tax deducted from or paid in respect of any part of the income of any individual is less than the standard rate, and the rate of the relief so allowed is greater than the rate appropriate to the case of that individual, such an adjustment shall be made in allowing to that individual any relief to which he may be entitled under the provisions of this Part of this Act relating to the rate of tax on the first two hundred and twenty-five pounds of taxable income as may be necessary to secure that the amount of United Kingdom income tax finally paid or borne by him shall be equal to the amount which would have been paid or borne if the relief under this section had in the first instance been given at the rate appropriate to his case.

(4) Notwithstanding anything in the Rules applicable to Case IV or Case V of Schedule D or in any other provision of the Income Tax Acts, no deduction shall be made on account of the payment of Dominion income tax in estimating income for the purposes of United Kingdom income tax, and where income tax has been paid or is payable in any Dominion either on the income out of which income subject to United Kingdom income tax arises or is received, or as a direct charge in respect of that income, the income so subject to United Kingdom income tax shall be deemed to be income arising or received after deduction of Dominion income tax and an addition shall, in estimating income for the purposes of the United Kingdom income tax, be made to that income of the proportionate part of the income tax paid or payable in the Dominion in respect of the income out of which that income arises or is received together with the full amount of any Dominion income tax directly charged or chargeable in the Dominion in respect of that income :

Provided that—

(*a*) where any income arising or received as aforesaid consists of dividends which are entrusted to any person in the United Kingdom for payment and the Special Commissioners are satisfied that the person so entrusted is not in a position to ascertain

the amount of the addition to be made under this sub-section, the assessment and charge may be made on the amount of the dividends as received by the person so entrusted, but in any such case the amount of the addition shall be chargeable on the recipient of the dividends under Case VI of Schedule D ; and

(*b*) where under the laws in force in any Dominion no provision is made for the allowance of relief from Dominion income tax in respect of the payment of United Kingdom income tax, then in assessing or charging income tax in the United Kingdom in respect of income assessed or charged to income tax in that Dominion a deduction shall be allowed in estimating income for the purpose of United Kingdom income tax of an amount equal to the difference between the amount of the Dominion income tax paid or payable in respect of the income and the total amount of the relief granted from the United Kingdom income tax in respect of the Dominion income tax for the period on the income of which the assessment or charge to United Kingdom income tax is computed.

In this sub-section the expression "dividends" includes any interest, annuities, dividends, shares of annuities, pensions, or other annual payments or sums in respect of which tax is charged under the Rules applicable to Schedule C or under Rule VII of the Miscellaneous Rules applicable to Schedule D.

(5) Where under Rule 20 of the General Rules applicable to Schedules A, B, C, D, and E, a body of persons is entitled to deduct income tax from any dividends, tax shall not in any case be deducted at a rate exceeding the rate of the United Kingdom income tax as reduced by any relief from that tax given under this section in respect of any payment of Dominion income tax.

(6) Where under the law in force in any Dominion provision is made for the allowance of relief from Dominion income tax in respect of the payment of United Kingdom income tax, the obligation as to secrecy imposed by the Income Tax Acts upon persons employed in relation to Inland Revenue shall not prevent the disclosure to the authorized officer of the Government of the Dominion of such facts as may be necessary to enable the proper relief to be given in cases where relief is claimed both from United Kingdom income tax and from Dominion income tax.

(7) The Commissioners of Inland Revenue may from time to time make regulations generally for carrying out the provisions of this section, and may, in particular, by those regulations provide—

(*a*) For making such arrangements with the Government of any Dominion to which the last preceding sub-section applies as may be necessary to enable the appropriate relief to be granted :

(*b*) For prescribing the year which in relation to any Dominion income tax is, for the purposes of relief under this section, to be taken as corresponding to the year of assessment for the purposes of United Kingdom income tax.

(8) In this section—

(*a*) The expression "Dominion" means any British possession, or any territory which is under His Majesty's protection or in respect of which a mandate is being exercised by the Government of any part of His Majesty's dominions :

(*b*) The expressions "United Kingdom income tax"[1] and "United Kingdom super-tax" mean respectively income tax and super-tax chargeable in accordance with the provisions of the Income Tax Acts :

(*c*) The expression "Dominion income tax" means any income tax or super-tax charged under any law in force in any Dominion, if that

[1] Refer to page 389.

tax appears to the Special Commissioners to correspond with United Kingdom income tax or super-tax:

(*d*) The expression "Dominion rate of tax" means the rate determined by dividing the amount of the Dominion income tax paid for the year by the amount of the income in respect of which the Dominion income tax is charged for that year, except that where the Dominion income tax is charged on an amount other than the ascertained amount of the actual profits the Dominion rate of tax for the purposes of this section shall be determined by the Special Commissioners.

For the purposes of this section, the rate of United Kingdom income tax shall be ascertained by dividing by the amount of the taxable income of the person concerned the amount of tax payable by that person on that income before deduction of any relief granted in respect of life assurance premiums or any relief granted under the provisions of this section, and the rate of United Kingdom super-tax shall be ascertained by dividing the amount of the super-tax payable by any person by the amount of that person's total income from all sources as estimated for super-tax purposes.

INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
November, 1924.

SIR,

FINANCE ACT, 1924, SECTION 33
EXPLANATION OF INCOME TAX DEDUCTION TO BE ANNEXED TO DIVIDEND WARRANTS, ETC.

I am directed by the Board of Inland Revenue to invite your attention to Section 33 of the Finance Act, 1924, which provides as follows—

33.—(1) Every warrant or cheque or other order drawn or made, or purporting to be drawn or made, after the thirtieth day of November, nineteen hundred and twenty-four, in payment of any dividend or interest distributed by any company, being a company within the meaning of the Companies (Consolidation) Act, 1908, or a company created by letters patent or by or in pursuance of an Act of Parliament, shall have annexed thereto or be accompanied by a statement in writing showing—

(*a*) the gross amount which, after deduction of the income tax appropriate thereto, corresponds to the net amount actually paid; and
(*b*) the rate and the amount of income tax appropriate to such gross amount; and
(*c*) the net amount actually paid.

(2) If a company fails to comply with the provisions of this section, the company shall, in respect of each offence, incur a penalty of ten pounds:

Provided that the aggregate amount of any penalties imposed under this section on any compaay in respect of offences connected with any one distribution of dividends or interest shall not exceed one hundred pounds.

In general, the Board understand that the Section will involve no alteration of practice by companies except in cases where dividends are declared to be paid "free of tax," when the warrant, etc., should in future have annexed or be accompanied by a statement showing the particulars specified in the Section.

In response to inquiries that have reached the Board, they have prepared as examples, appropriate to normal cases, the forms of counterfoil [numbered (1) to (4)] which are printed as an appendix to this Circular. These forms furnish the information required by the Section, and in addition contain certain particulars which should be given if the statement is made that the forms will be accepted by the Inland Revenue authorities in connection with claims to any allowance or relief from Income Tax. The particulars last referred to are—

- (*a*) the name of the shareholder ;
- (*b*) the period for which the dividend or interest is declared ;
- (*c*) the date of payment ; and
- (*d*) a declaration by the Secretary, or other responsible officer of the company, to the effect that Income Tax on the profits of the company has been or will be duly paid to the proper officer for the receipt of Taxes.

A company which obtains relief under Section 27 of the Finance Act, 1920, in respect of Dominion Income Tax is requested to incorporate in the form of counterfoil an explanatory memorandum to its shareholders on the lines indicated in Example (3) or Example (4), as may be appropriate, of the appendix to this Circular.

I am,

SIR,

Your obedient Servant,

C. GORDON SPRY,

Secretary.

EXAMPLE (1). Form for dividend " less Income Tax."

THE X. Y. Z. COMPANY, LIMITED,

127 CONCORD HOUSE,
LONDON, E.C.2.

1*st December*, 1924.

No. 7641.

Notice of Dividend for the year ended 30th September, 1924.

To JAMES SCOTT.

A dividend at the rate of 5% *per annum* on the *Ordinary* Shares of the Company having been duly declared for the *year* ended 30*th September*, 1924, I beg to forward you the annexed warrant for the amount in respect of the shares registered in your name.

	£	s.	d.
1,200 *Ordinary* Shares of £1 each @ 5%	60	0	0
Less Income Tax @ 4s. 6d. in the £	13	10	0
Net amount of Warrant	46	10	0

I hereby certify that Income Tax on the profits of the Company, of which profits this dividend forms a portion, has been or will be duly paid to the proper Officer for the receipt of Taxes.

J. GRANT,

Secretary.

This portion of the sheet should be preserved as it will be accepted by the Inland Revenue authorities in connection with any claim to allowance or relief from Income Tax.

EXAMPLE (2). Form for dividend "free of Income Tax."

THE X. Y. Z. COMPANY LIMITED,
127 CONCORD HOUSE,
LONDON, E.C.2.
1*st December*, 1924.

No. 7641.

Notice of Dividend for the year ended 30th September, 1924.

To JAMES SCOTT.

A dividend at the rate of 5% *per annum*, "free of Income Tax," on the *Ordinary* Shares of the Company having been duly declared for the *year* ended 30*th September*, 1924, I beg to forward you the annexed warrant for the amount in respect of the shares registered in your name.

1,200 *Ordinary Shares of £1 each* @ 5% = £60 0 0

	£	s.	d.
This dividend is equivalent to a gross amount of	77	8	5
Less Income Tax @ 4s. 6d. in the £ ..	17	8	5
Net amount of Warrant ..	60	0	0

I hereby certify that Income Tax on the profits of the Company, of which profits this dividend forms a portion, has been or will be duly paid to the proper Officer for the receipt of Taxes.

J. GRANT,
Secretary.

This portion of the sheet should be preserved as it will be accepted by the Inland Revenue authorities in connection with any claim to allowance or relief from Income Tax.

EXAMPLE (3). Form for dividend "less Income Tax" where the Company obtains relief in respect of Dominion Income Tax under Section 27 of the Finance Act, 1924.

[For the purposes of the example it is assumed that the Company obtains relief under Section 27 for the years 1923-24 and 1924-25 at a rate of 2s. in the £ on its total income.]

THE X. Y. Z. COMPANY LIMITED,
127 CONCORD HOUSE,
LONDON, E.C.2.
1*st December*, 1924.

No. 7641.

Notice of Dividend for the year ended 30th September, 1924.

To JAMES SCOTT.

A dividend at the rate of 5% *per annum* on the *Ordinary* Shares of the Company having been duly declared for the *year* ended 30*th September*, 1924, I beg to forward you the annexed warrant for the amount in respect of the shares registered in your name.

		£	s.	d.
1,200 *Ordinary* Shares of £1 *each at* 5%	=	60	0	0
Less Income Tax at 2s. 6d. in the £[1]	=	7	10	0
Net amount of Warrant ..	..	52	10	0

[1] See Memorandum on back hereof.

I hereby certify that Income Tax on the profits of the Company, of which profits this dividend forms a portion, has been or will be duly paid to the proper Officer for the receipt of Taxes.

J. GRANT,
Secretary.

This portion of the sheet should be preserved as it will be accepted by the Inland Revenue authorities in connection with any claim to allowance or relief from Income Tax.

Back of form.

MEMORANDUM.

Section 27 of the Finance Act, 1920, provides for the granting of relief in respect of Dominion Income Tax at the rate of—

(*a*) the Dominion tax, or

(*b*) one-half of the taxpayer's appropriate rate of British tax (as defined by the Section), whichever is the less.

Under this Section, the Company has obtained, or will obtain, relief from British Income Tax, by reference to the full standard rate of British Income Tax, viz.—4s. 6d. in the £, and the rate of British Income Tax deducted from the dividend is 2s. 6d. in the £, arrived at as follows—

		s.	d.	
Full standard rate of British Income Tax	=	4	6	in the £
Less relief in respect of Dominion Income Tax	..	2	0	,, ,,
Rate of tax deducted from the dividend ..	..	2	6	,, ,,

EXAMPLE (4). Form for dividend "free of Income Tax" where the Company obtains relief in respect of Dominion Income Tax under Section 27 of the Finance Act, 1920.

[For the purposes of the example it is assumed that the Company obtains relief under Section 27 for the years 1923-24 and 1924-25 at a rate of 2s. in the £ on its total income.]

THE X. Y. Z. COMPANY LIMITED,
127 CONCORD HOUSE,
LONDON, E.C.2.
1*st December*, 1924.

No. 7641.

Notice of Dividend for the year ended 30 September, 1924.

To JAMES SCOTT.

A dividend at the rate of 5% *per annum*, "free of Income Tax," on the *Ordinary* Shares of the Company having been duly declared for the *year* ended 30*th September*, 1924, I beg to forward you the annexed warrant for the amount in respect of the shares registered in your name.

1,200 *Ordinary Shares of* £1 *each* @ 5% = £60 0 0

	£	s.	d.
This dividend is equivalent to a gross amount of	68	11	5
Less Income Tax @ 2s. 6d. in the £[1] ..	8	11	5
Net amount of Warrant ..	60	0	0

[1] See Memorandum on back hereof.

I hereby certify that Income Tax on the profits of the Company, of which profits this dividend forms a portion, has been or will be duly paid to the proper Officer for the receipt of Taxes.

J. GRANT,
Secretary.

This portion of the sheet should be preserved as it will be accepted by the Inland Revenue authorities in connection with any claim to allowance or relief from Income Tax.

Back of form.

MEMORANDUM.

Section 27 of the Finance Act, 1920, provides for the granting of relief in respect of Dominion Income Tax at the rate of—

(*a*) the Dominion tax, or

(*b*) one-half of the taxpayer's appropriate rate of British tax (as defined by the Section), whichever is the less.

Under this Section, the Company has obtained, or will obtain, relief from British Income Tax by reference to the full standard rate of British Income Tax, viz., 4s. 6d. in the £, and the rate of British Income Tax applicable to the dividend is 2s. 6d. in the £, arrived at as follows—

		s.	d.	
Full standard rate of British Income Tax ..	=	4	6	in the £
Less relief in respect of Dominion Income Tax	=	2	0	,, ,,
Rate of tax applicable to the dividend		2	6	,, ,,

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